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THE WAR FINANCE OF FRANCE

ECONOMIC AND SOCIAL HISTORY
OF THE WORLD WAR

JAMES T. SHOTWELL, LL.D., *General Editor.*

TRANSLATED AND ABRIDGED SERIES

*For List of Editors, Publishers, and Plan of Series
see end of this volume.*

THE WAR FINANCE OF FRANCE

THE WAR EXPENDITURE OF FRANCE

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HOW FRANCE MET HER WAR EXPENDITURE

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EDITOR'S PREFACE

IN the autumn of 1914, when the scientific study of the effects of war upon modern life passed suddenly from theory to history, the Division of Economics and History of the Carnegie Endowment for International Peace proposed to adjust the program of its researches to the new and altered problems which the War presented. The existing program, which had been prepared as the result of a conference of economists held at Berne in 1911, and which dealt with the facts then at hand, had just begun to show the quality of its contributions; but for many reasons it could no longer be followed out. A plan was therefore drawn up at the request of the Director of the Division, in which it was proposed, by means of an historical survey, to attempt to measure the economic cost of the War and the displacement which it was causing in the processes of civilization. Such an "Economic and Social History of the World War," it was felt, if undertaken by men of judicial temper and adequate training, might ultimately, by reason of its scientific obligations to truth, furnish data for the forming of sound public opinion, and thus contribute fundamentally toward the aims of an institution dedicated to the cause of international peace.

The need for such an analysis, conceived and executed in the spirit of historical research, was increasingly obvious as the War developed, releasing complex forces of national life not only for the vast process of destruction, but also for the stimulation of new capacities for production. This new economic activity, which under normal conditions of peace might have been a gain to society, and the surprising capacity exhibited by the belligerent nations for enduring long and increasing loss—often while presenting the outward semblance of new prosperity—made necessary a reconsideration of the whole field of war economics. A double obligation was therefore placed upon the Division of Economics and History. It was obliged to concentrate its work upon the problem thus presented, and to study it as a whole; in other words, to apply to it the tests and disciplines of history. Just as the War itself was a single event, though penetrating by seemingly unconnected ways to the remotest parts of the world, so the analysis of it must be developed accord-

ing to a plan at once all embracing and yet adjustable to the practical limits of the available data.

During the actual progress of the War, however, the execution of this plan for a scientific and objective study of war economics proved impossible in any large and authoritative way. Incidental studies and surveys of portions of the field could be made and were made under the direction of the Division, but it was impossible to undertake a general history for obvious reasons. In the first place, an authoritative statement of the resources of belligerents bore directly on the conduct of armies in the field. The result was to remove as far as possible from scrutiny those data of the economic life of the countries at war which would ordinarily, in time of peace, be readily available for investigation. In addition to this difficulty of consulting documents, collaborators competent to deal with them were for the most part called into national service in the belligerent countries and so were unavailable for research. The plan for a war history was therefore postponed until conditions should arise which would make possible not only access to essential documents, but also the co-operation of economists, historians, and men of affairs in the nations chiefly concerned, whose joint work would not be misunderstood either in purpose or in content.

Upon the termination of the War, the Endowment once more took up the original plan, and it was found with but slight modification to be applicable to the situation. Work was begun in the summer and autumn of 1918. In the first place a final conference of the Advisory Board of Economists of the Division of Economics and History was held in Paris, which limited itself to planning a series of short preliminary surveys of special fields. Since, however, the purely preliminary character of such studies was further emphasized by the fact that they were directed more especially toward those problems which were then fronting Europe as questions of urgency, it was considered best not to treat them as part of the general survey but rather as of contemporary value in the period of war settlement. It was clear that not only could no general program be laid down *a priori* by this conference as a whole, but that a new and more highly specialized research organization than that already existing would be needed to undertake the Economic and Social History of the War, one based more upon national grounds in the first instance, and less upon purely international coöperation. Until the facts of national

history could be ascertained, it would be impossible to proceed with comparative analysis; and the different national histories were themselves of almost baffling intricacy and variety. Consequently the former European Committee of Research was dissolved, and in its place it was decided to erect an Editorial Board in each of the larger countries and to nominate special editors in the smaller ones, who should concentrate, for the present at least, upon their own economic and social war history.

The nomination of these boards by the General Editor was the first step taken in every country where the work has begun. And if any justification were needed for the plan of the Endowment, it at once may be found in the lists of those, distinguished in scholarship or in public affairs, who have accepted the responsibility of editorship. This responsibility is by no means light, involving as it does the adaptation of the general editorial plan to the varying demands of national circumstances or methods of work; and the measure of success attained is due to the generous and earnest coöperation of those in charge in each country.

Once the editorial organization was established there could be little doubt as to the first step which should be taken in each instance toward the actual preparation of the history. Without documents there can be no history. The essential records of the War, local as well as central, have therefore to be preserved and to be made available for research in so far as is compatible with public interest. But this archival task is a very great one, belonging of right to the governments and other owners of historical sources and not to the historian or economist who proposes to use them. It is an obligation of ownership; for all such documents are public trust. The collaborators on this section of the war history, therefore, working within their own field as researchers, could only survey the situation as they found it and report their findings in the form of guides or manuals; and perhaps, by stimulating a comparison of methods, help to further the adoption of those found to be most practical. In every country, therefore, this was the point of departure for actual work; although special monographs have not been written in every instance.

The first stage of the work upon the war history, dealing with little more than the externals of archives, seemed for a while to exhaust the possibilities of research, and had the plan of the history been limited to research based upon official document, little more

could have been done, for once documents have been labeled "secret" few government officials can be found with sufficient courage or initiative to break open the seal. Thus vast masses of source material essential for the historian were effectively placed beyond his reach, although much of it was quite harmless from any point of view. While war conditions thus continued to hamper research, and were likely to do so for many years to come, some alternative had to be found.

Fortunately such an alternative was at hand in the narrative, amply supported by documentary evidence, of those who had played some part in the conduct of affairs during the War, or who, as close observers in privileged positions, were able to record from first or at least second-hand knowledge the economic history of different phases of the Great War, and of its effect upon society. Thus a series of monographs was planned consisting for the most part of unofficial yet authoritative statements, descriptive or historical, which may best be described as about half-way between memoirs and blue-books. These monographs make up the main body of the work assigned so far. They are not limited to contemporary war-time studies; for the economic history of the War must deal with a longer period than that of the actual fighting. It must cover the years of "deflation" as well, at least sufficiently to secure some fairer measure of the economic displacement than is possible in purely contemporary judgments.

With this phase of the work, the editorial problems assumed a new aspect. The series of monographs had to be planned primarily with regard to the availability of contributors, rather than of source material as in the case of most histories; for the contributors themselves controlled the sources. This in turn involved a new attitude toward those two ideals which historians have sought to emphasize, consistency and objectivity. In order to bring out the chief contribution of each writer it was impossible to keep within narrowly logical outlines; facts would have to be repeated in different settings and seen from different angles, and sections included which do not lie within the strict limits of history; and absolute objectivity could not be obtained in every part. Under the stress of controversy of apology, partial views would here and there find their expression. But these views are in some instances an intrinsic part of the history itself, contemporary measurements of facts as significant as the

facts with which they deal. Moreover, the work as a whole is planned to furnish its own corrective; and where it does not, others will.

In addition to the monographic treatment of source material, a number of studies by specialists are already in preparation, dealing with technical or limited subjects, historical or statistical. These monographs also partake to some extent of the nature of first-hand material, registering as they do the data of history close enough to the source to permit verification in ways impossible later. But they also belong to that constructive process by which history passes from analysis to synthesis. The process is a long and difficult one, however, and work upon it has only just begun. To quote an apt characterization; in the first stages of a history like this, one is only "picking cotton." The tangled threads of events have still to be woven into the pattern of history; and for this creative and constructive work different plans and organizations may be needed.

In a work which is the product of so complex and varied coöperation as this, it is impossible to indicate in any but a most general way the apportionment of responsibility of editors and authors for the contents of the different monographs. For the plan of the History as a whole and its effective execution the General Editor is responsible; but the arrangement of the detailed programs of study has been largely the work of the different Editorial Boards and divisional Editors, who have also read the manuscripts prepared under their direction. The acceptance of a monograph in this series, however, does not commit the editors to the opinions or conclusions of the authors. Like other editors, they are asked to vouch for the scientific merit, the appropriateness and usefulness of the volumes admitted to the series; but the authors are naturally free to make their individual contributions in their own way. In like manner the publication of the monographs does not commit the Endowment to agreement with any specific conclusions which may be expressed therein. The responsibility of the Endowment is to History itself—an obligation not to avoid but to secure and preserve variant narratives and points of view, in so far as they are essential for the understanding of the War as a whole.

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For the most part, the text of the volumes of the various national series has been prepared in the language of the country concerned;

and, as will be seen by reference to the "Outline of Plan" at the end of this volume, these texts with but few exceptions are published in their original languages. The most notable variation from this rule has been in the case of the Russian series, which, for the present at least, will be published only in English translation. There has also been some translation prior to publication, the aim being to present the entire body of the History of the War in the major languages of Europe: English, French, German or Italian, with the possible addition of Spanish if the scope of the history were extended in the direction of the Spanish-speaking countries.

In addition, however, to these original texts, a limited number of volumes of the European continental series are published by the American publishers in abridged and slightly modified translation. This "Translated and Abridged Series" has been prepared solely with regard to its possible usefulness for those who do not readily use the originals. It is therefore necessarily limited to volumes dealing with the more general subjects, such as the effect of the War upon the agriculture or manufactures of a country, and excludes the more special topics, like the treatment of individual industries, which would interest few except those who already know the language of the original study. This rule has been departed from in some instances in order to present to American or English readers data of peculiar interest which nevertheless come from a restricted field. The application of this criterion of usefulness naturally leaves the "Translated and Abridged Series" somewhat lacking in symmetry, in view of the fact that the British series and others (like the Russian and Japanese) originally appearing in English, are already available, without further editorial modification or abridgment.

The first volumes to appear in the abridged English translation deal with subjects of great importance, the effect of the War upon French industry, agriculture and food supply. There are similar surveys of the mechanism of government control in war-time, of the social and material disturbances due to invasion, and of the doubly vexed question of France's war finance. Studies in Austrian and German war history and of that of the smaller nations parallel those of France, Belgium and Italy. These translated volumes, however, cover but a fraction of the field surveyed in the more special researches. Moreover, it should be noted that the more general mono-

graphs selected for translation are themselves the result of independent original research and are not dependent for their data upon the accompanying special studies prepared for more technical readers. This method of work, forced upon the authors by the exigencies of the scientific method, has sometimes led to seemingly different conclusions. But a careful examination of these apparent discrepancies will show that the ultimate synthesis is merely enriched by the consideration of variant aspects of a problem so vast and so elusive that no one statement, especially if cast in statistical formula, is adequate even to describe its terms.

J. T. S.

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I

THE WAR EXPENDITURE OF FRANCE

BY GASTON JÈZE

THE WAR EXPENDITURE OF FRANCE

INTRODUCTION

IT is not easy, at the present time, to write a book on the war expenditure of France. Difficulties both of a material and of a moral order stand in the way.

The documents relating to the War are innumerable, but they are incomplete; above all, their sincerity is frequently suspect. The expert who seeks the truth and who says only what he believes to be the truth, is obliged to examine documents and official statements with care and impartiality, and to criticize them, courteously no doubt, but unsparingly. At a time when the nationalist passions let loose by the War are still alive, when peace is far from securely re-established, many think it a patriotic act to fan the sacred flame of egoism. It is a task of no little delicacy for the expert, at the risk of running counter to the prejudices of those about him, to endeavor to escape from this formidable pressure, exercised on him by his surroundings. And yet, if he wishes to write something else than propaganda, he must place himself above the passions of nationalism. And that is what I have striven to do.

The reader may think that some of the conclusions which I have submitted, notably in regard to the cost of the War to France, are greatly lacking in precision. No doubt I might, with the help of official documents, have piled up impressive statistics and given figures of a high degree of exactness. I have preferred to say simply what I believe to be the truth, while stating definitely the reasons which should set the expert public on its guard. I am inclined to think that the agnostic conclusions to which I have been led would be appropriate to many other countries. It is for this reason that I have laid stress on the methods that should be followed in order to arrive at the truth in this connection. In so doing I am exceeding the proper scope of this work, devoted as it is to the public war expenditure of France. But therein lies, no doubt, its principal utility.

On one point my conclusions are very decided: as regards the economic, financial, and moral consequences of the Great War. I confine myself here to a short statement of my views; a special work in this series will be devoted to these economic, financial, and moral consequences; it will deal with the *economic cost* of the War, and serve

as a companion to the present inquiry into the public expenditure on the War.

Let us simply note here that, for France, the War has not only brought economic ruin and financial chaos in its train; from the moral point of view it has been a catastrophe. The moral level of the population has been greatly lowered. And yet this is the same people that carried on a fearful war for more than four years, showed an endurance unexampled in history, and shed its blood unstintingly.

The financial conduct of the War was bad. It was probably bad in all the belligerent countries. It was a matter of degree. Waste, irregularities, incoherence, ignorance, and corruption, appear to be the inseparable concomitants of a great national war.

CHAPTER I

COST OF THE WAR

To study the cost of the War to France is to inquire in the first place what was the amount expended, and the purposes for which it was expended, in order to compare this expenditure with that incurred by other countries or in other wars; and then to investigate the political, economic, and legal methods by which the war expenditure was incurred.

War expenditure may be interpreted in several ways. In a very wide sense, one may calculate the expenses entailed by the losses of all kinds that war imposes upon a given country: war expenditure will, in that case, comprise not only the sums disbursed in cash by the State and the public authorities for the conduct of hostilities, but also the expenditure required to repair the losses undergone by the State and by the various localities, and the losses of private individuals. Just as we distinguish between the *public* revenue and the *national* revenue, so we may distinguish between *public* war expenditure and *national* war expenditure.

The moment one places oneself at the national standpoint, the study of the cost of war to a country becomes extremely vast and difficult. In the first rank figure those national war losses which manifest themselves not in expenditure alone: I mean the loss of human lives and the wounds by which men have been disabled for economic production or rendered less efficient producers. Among them must also be included all loss and destruction of property, which doubtless can be made good, but which entail a diminution of the nation's economic production.

These are a few examples, which might be multiplied. They show at once the difficulties that will be encountered in any attempt to estimate the total cost of the War to a given country. There is only one standard available for measuring the cost of war: money. But how can the losses of human lives, the reduced productivity of the disabled be reckoned in money? And as regards devastated property, how can we measure *in money* the loss of profits that results from the devastation of the natural riches of a country, its mines and forests?

One must go further. The gravest losses entailed by the War of 1914 are of the social and moral order. They are the indirect losses. It may be asserted that these social and moral consequences are infinitely more disastrous than the losses of money, than the material destruction, the forfeited profits of a purely economic character. The War has modified in a considerable degree the habits of the men who took part in it directly or indirectly. This is unquestionable as regards the men who were called to the colors. The prolonged duration and well-known conditions of camp life diminished the inclination to work and developed the brutal element in men's nature, which civilization had lulled to sleep; they roused and stimulated this element. Hearts were rendered callous by war's atrocities.

For many non-combatants, war brought privations, impoverishment, a drop in the social scale. Others reached depths of demoralization that pass belief. Many drew profit from their country's adversity and built up gigantic fortunes in a few months. This immoral spectacle diminished the taste for patient toil, and awakened the desire for large fortunes acquired quickly, by speculation and not by a life of continuous labor. Civilization has undoubtedly receded.

This is not all. So strong has been the appeal to patriotic sentiment, to hatred of the foreigner, that the public mind has been radically transformed; it will be long before the nationalistic passion of the peoples has calmed down. In the economic order, this fury manifests itself by a policy of distrust of the foreigner of whatever nationality; hence restrictions on commerce, customs barriers, tariff wars, and so on. The *indirect* economic losses under this head are incalculable. Any attempt to figure them out is bound to appear arbitrary and fantastic. But the fact is none the less certain.

We have here new phenomena, which had not appeared to the same degree in the past. Wars had not formerly the national character that marked the War of 1914. Only a small fraction of the population took part in them. Hostilities were of shorter duration; hatred was not stimulated to the same extent. The loss of lives, the devastation of property were not so formidable. Between the War of 1914 and earlier wars there is, in this respect, no common measure. And, indeed, the indirect, economic, social, and moral consequences of the War are far more serious than its direct consequences.

To attempt, therefore, to reckon the cost of the War to a particu-

lar country is a highly arbitrary proceeding, since the indirect consequences cannot be translated into figures.¹

But one may seek to determine the expenditure *in money* that a country has had to incur for the purpose of the War. Even with this limited aim, one must admit the impossibility of estimating the expenditure *in money* incurred by private persons. The total war expenditure of the community *in money* cannot be calculated. One must

¹ For an estimate of some of the indirect consequences of the war, see the essay by Professor E. L. Bogart, *Direct and Indirect Costs of the Great World War*, New York, 1919 (Carnegie Endowment for International Peace, Division of Economics and History. Preliminary Economic Studies of the War, No. 24, p. 269 *et s.*: Indirect Costs).

Professor Bogart observes, with truth, that the loss of human lives and the deterioration of the race brought about by the War are among the most formidable and lasting elements in its cost, inasmuch as they affect not only the present generation but also generations to come. So it is also with war wounds and war diseases (trench fever, tuberculosis, etc.).

However open to criticism the estimation of these losses in terms of money may be, Prof. Bogart—and others quoted by him—have made the attempt. They have supposed that, as regards France, the average social value of an individual was equivalent, on the basis of his capacity for production, to a capital sum of 2,900 dollars, or about 15,000 gold francs. This average is far below the truth, for in order to arrive at it, old men, women, and children have been included. And, in fact, certain writers have suggested 50,000 gold francs or even 125,000 francs.

On this basis, investigators have arrived at fantastic figures, seeing that the losses of France for the period 1914-1918 have been estimated at

1,427,800 dead,
700,000 severely wounded,
2,344,000 wounded,
453,500 prisoners or missing.

Out of these, the losses relating to colonial troops are said to be the following:

42,569 dead,
15,000 severely wounded,
44,000 wounded,
3,500 prisoners or missing.

Accordingly we should have, merely in respect of loss of lives (dead and missing) the figure *for France* of about 24 billions (see footnote 6, p. 9) of gold francs, taking the capital value of a Frenchman at 15,000 francs.

All such calculations appear to me arbitrary and without scientific value. I would refer those who may be interested in such estimates to M. Edmond Théry's book, *Conséquences économiques de la guerre pour la France*, Paris, 1922, 350 pp.

therefore resign oneself to investigating merely the *public war expenditure in money*. This represents only part of the cost of the War.

At first sight the calculation appears possible and even easy. Let us examine the problem more closely.

SECTION I

METHODS OF CALCULATION USUALLY ADOPTED TO DETERMINE WAR EXPENDITURE IN MONEY. CRITICISM OF THESE METHODS

Men are like children. They wish to know at once what can be known only much later, or may even never be known at all. No sooner was the War of 1914 at an end than efforts were made to determine its cost with precision.

Some, as we have seen, did not hesitate to attack an insoluble problem. They sought to ascertain, not only the money that had been spent by each of the belligerent States, but also the economic losses of all kinds that the War had entailed.

Other financial experts, with a more limited ambition, inquired simply into the cost of the War in money to each of the countries that had taken part in the struggle. Some thought that they could give the cost of the War in money with precision. Others were content to state that their figures merely indicated the order of magnitude of the expenditure.

As regards France, in order to obtain, either the precise cost of the War in money, or the order of its magnitude, one or other of the two following methods has generally been employed:

I

First Method.

1. The State expenditure in money during the period of war has been ascertained. From this has been deducted the expenditure during an equal period of peace. The difference represents approximately the cost of the War.

2. This has been the method constantly followed in England by financial historians for the calculation of the cost of the wars of the end of the eighteenth and the beginning of the nineteenth centuries. The Finance Committee of the House of Commons on Army, Navy, and Ordnance Expenditure, 1782, was the first to introduce this

method, for the calculation of the cost of the war with America (1775-1782). It summed up the expenditure on the navy, the army, and the artillery during the seven years 1775-1782, *viz.*: £103,375,519. Then it took the mean annual expenditure on these services in peace-time, £3,500,000, making for seven years £24,500,000. Deducting this latter sum from the former total, one gets, as expenditure on the War down to the 5th April 1782, the sum of £78,875,519.²

This same method was adopted by Sir John Sinclair, in his *History of the Public Revenue*, for the calculation of the cost of the wars from 1688 down to the peace of 1783. And the figures that he gives are those which have been generally adopted by historians and in parliamentary discussions.

If this method had been strictly applied to the Crimean War, it would have been necessary to take as basis of calculation only the two years 1854-1855 and 1855-1856, since the Crimean War was terminated before the end of the financial year 1855-1856. The Chancellor of the Exchequer, Sir G. C. Lewis, in his budget speech on 13th February 1857, pointed out that this method of calculation would give incorrect results. We must, said he, consider the year 1856-1857 as a war year, seeing that we are already committed to expenditure as though there were to be a third year of war (1856-1857); and this expenditure will have to be defrayed in 1856-1857. Further, it is legitimate to reckon the cost of the repatriation of the troops from the Crimea and the demobilization of the army and navy, expenditure that will be incurred in 1856-1857. Sir G. C. Lewis accordingly corrected the old method and took as basis of calculation the three years, 1854-1855, 1855-1856, and 1856-1857.

But the change was not confined to this. He did not consider merely the military expenditure: he calculated the net total of public expenditure (civil and military) and compared it with the mean total expenditure during the three preceding years of peace. As a final modification, he added to the war expenditure defrayed out of annual revenue the approximate amount defrayed out of loans.

If the extension of the period considered as period of war was fully justified, it was not so with the other factors in the calculation. In particular, it is not apparent why Sir G. C. Lewis took as

² Report of 5th July 1782, analyzed in the Report on Public Income and Expenditure, 1869, No. 366, III, p. 674 *et s.*

basis all the public expenditure without exception, all the civil as well as the military expenditure. And indeed Mr. H. W. Chisholm, author of the Report on Public Income and Expenditure of 1869,³ reverted to the method adopted by the Committee of 1782 and by Sir John Sinclair, perfecting it by extending the war period. But the learned author was conscious that there were great lacunae: in particular, he would have wished to add the capital value of pensions and other military allowances, which certainly form part of war expenditure. He was, however, obliged to abandon the idea for lack of precise data. Nor did he reckon the interest payable on war loans until their extinction. Accordingly the figures given in the valuable Report of 1869 for the cost of the wars from 1688 to 1869 are very much below the true expenditure, and, as regards the Crimean War, do not agree with the data supplied by Sir G. C. Lewis.

Let us consider finally the manner in which the cost of the South African War was calculated. In 1902, in the House of Commons, Sir M. Hicks-Beach, Chancellor of the Exchequer, included in the war expenditure the interest on loans contracted for the purpose of the war, and this interest, for the three first years of the war (down to 31st March 1902), amounted to £4,967,000.⁴

In 1903, when the South African War was now completely at an end, Mr. Ritchie, the new Chancellor of the Exchequer, furnished to the House of Commons a fresh estimate of the cost of the war for the four years 1899-1903. He included the year 1902-1903, although the war had terminated in 1902. But he insisted on the necessity of distinguishing between *direct* and *indirect* war expenditure, while admitting that the distinction is very difficult to make, that the exact amount of the indirect expenditure cannot be ascertained and, indeed, is of no great importance.⁵

It is easy to understand that with such distinctions—and it is very difficult to avoid them—one may arrive at very different results according to what one includes in direct expenditure. If it is desired to show, in support of some political doctrine, that the cost of a particular war has been very high, or, on the contrary, to minimize its amount, a more or less elastic criterion will be adopted of what constitutes indirect war expenditure.

³ *House of Commons No. 366*, III, p. 707.

⁴ *Parliamentary Debates*, Vol. 106, pp. 170-171, 14th April 1902.

⁵ *Parliamentary Debates*, Vol. 121, p. 234, 23rd April 1903.

This is the explanation of the differences in the statistics that have been published. The figures quoted by political orators or writers must always be viewed with suspicion. They are nearly always distorted—consciously or unconsciously—by party considerations.

3. However this may be, the method of calculation that consists in showing as war expenditure the difference between the total public expenditure during the period of war and the total expenditure on a peace footing, this method, I say, has generally been followed by those who up to now have sought to determine the cost of the War of 1914.

If this method is applied to France, a round sum is generally given, as representing the total public expenditure of the State *in money* for the period from July 1914 to the end of 1918, varying between 140 and 150 billions of francs. It is pointed out, on the other hand, that the total State expenditure in 1913 amounted to about 5 billions of francs. Accordingly, to obtain the sum of France's war expenditure, we have only to deduct from the total of 140 to 150 billions a sum of 22 billions representing the expenditure on a peace footing for a period of four and a half years (1914-1918). This method of calculation brings out the war expenditure properly so called of the French State at a sum, in round figures, between 120 and 130 billions of francs.

4. By this method, Professor Edwin R. A. Seligman, in his fine essay on "The cost of the war and the means by which it has been met," arrives at a figure of 169 billions of francs. "For France," he says, "we have taken the total five-year expenditures as stated by Minister Klotz in 1919 (192 billion francs) and have deducted 23 billions, as representing the peace expenditures for the four and a half year period, thus leaving a remainder of 169 billion francs or 31½ billion dollars."⁶

5. Professor E. L. Bogart, in his book on the direct and indirect costs of the Great War,⁷ obtained, by this first method of calcula-

⁶ Edwin R. A. Seligman, *Essays in Taxation*, 10th ed., 1925, p. 755. [A billion in French or American usage (as here) is a thousand million; in English usage it is a million million. In this volume, and throughout the Translated and Abridged Series, American usage is observed.]

⁷ E. L. Bogart, *Direct and Indirect Costs of the Great War*, New York, 1919, p. 70 *et s.*, and particularly p. 118.

tion, a sum of 25,800 million dollars, or 129 billions of francs, for the period 1914-1918.

6. The same method leads M. Edmond Théry⁸ to a figure of 115 billions of francs "for the 53 months of the War." After having "re-capitulated the expenditure that the State was authorized to incur from the day of mobilization down to the 31st December 1918" (158,555 millions of francs), M. Théry proceeds: "These figures are not definitive, for certain unexpended credits will be cancelled when the accounts are audited. But soundings taken make it clear already that the reduction to be expected under this head will not exceed 10 per cent. For the fifty-three months of the War, accordingly, the State expenditure will amount approximately to 140 billions, or 2640 millions a month on the average. As our last pre-war budgets did not exceed 5500 millions, we should have had to expend during the same period, but for the German attack, barely 25 billions (which would have corresponded to an annual average of 5500 millions). The difference, 115 billions in all or 2200 millions a month, is a measure of the effective financial effort to which we were constrained from the middle of 1914 to the end of 1918."

7. Finally, it was certainly this first method by which the French Government was inspired when it drew up in 1922 the following tables:

*Table of Credits
opened from 1st August 1914 to the end of the financial year 1919
(in millions of francs).⁹*

<i>Financial year</i>	<i>Ordinary civil expenditure</i>		<i>Military and exceptional war expenditure</i>	<i>Total</i>
	<i>Debt</i>	<i>Other expenditure</i>		
1914 (war period)	59.6	128.9	6,400.9	6,589.4
1915	1,899.4	2,449.7	18,455.4	22,804.5
1916	3,333.0	2,371.7	27,240.4	32,945.1
1917	4,863.7	2,750.1	34,065.8	41,679.6
1918	7,087.7	3,401.7	44,047.7	54,537.1
1919	7,986.8	5,228.3	35,823.5	49,038.7
Total	25,230.2	16,330.4	166,033.8	207,594.4

⁸ *Conséquences économiques de la guerre pour la France*, Paris, 1922, pp. 274 and 275.

⁹ *Projet de budget pour 1923. Chambre, 1922, no. 4220, p. 233.*

This table brings out, for the war period 1914-1919, a war expenditure properly so called of 166 billions of francs. To this we must add the service of so much of the debt as was contracted to meet war needs, that is to say, for the period 1914-1919, five to six billions. The war expenditure for the years 1914-1919 would thus amount to 170-172 billions of francs.

The Ministry of Finance has drawn up further tables, to supplement the above statistics as regards later years:

*Table of Credits
opened during the financial years 1920 and 1921
(in millions of francs).¹⁰*

<i>Financial year</i>	<i>Ordinary budget</i>			<i>Extraordinary budget</i>			<i>Total</i>
	<i>Debt</i>	<i>Military expenditure</i>	<i>Other expenditure</i>	<i>Debt</i>	<i>Military expenditure</i>	<i>Other expenditure</i>	
1920	11,825.6	4,283.7	7,447.9	200	2,409.3	4,988.7	52,409.5
1921	11,870.2	4,195.8	7,864.9	200	1,835.0	2,014.8	44,296.9
Total	23,695.8	8,479.5	15,312.8	400	4,244.3	7,003.5	96,706.4

*Table of Credits
opened for the financial year 1922*

1922	12,787.2	4,077.9	6,886.5	...	692.6	2,014.0	10,859.4	37,317.6
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¹⁰ *Projet de budget pour 1923. Chambre, 1922, no. 4220, p. 234 et s.*

It therefore appears easy, with the help of the above documents, to determine the amount of France's war expenditure. We may observe, incidentally, that the application of this first method has not always led the experts to concordant results.

II

Second Method.

The tax revenue collected by the French Government during the War, it is said, was somewhat less in amount than its expenditure on a peace footing. It had recourse almost exclusively to borrowing to defray the cost of the War. Accordingly, all that is required, in order to ascertain the cost of the War, is to compare the amounts of the public debt at the outset of the War, on the 31st July 1914, and at its termination, that is to say either on the day of the armistice (11th November 1918), or some years after the War, so as to include the expenses of liquidating the War. The difference between the two amounts gives approximately the cost of the War.

This being the principle, we learn that, on the morrow of the armistice, on the 31st December 1918, the public debt of France, including the paper currency and the external debt, both commercial and political, at the rate of exchange of the day, amounted to 171,688 millions of francs.¹¹ The public debt on the 31st July 1914 was about 27,704 millions.¹² We may note that ordinary revenue did not quite cover peace expenditure during the period 1914-1918. The expenditure on the War having been exclusively met by loans, a sum of about 140 billions of francs represents the cost to France of the War for the period 1914-1918.

By this second method, adding the 45,600 million francs by which the French public debt was increased in 1919, while deducting so much of the debt as was contracted to meet current expenditure, Professor Seligman obtained, as the cost to France of the War, a sum of close on 180 billions of francs.

¹¹ General Report submitted on behalf of the Finance Committee of the Senate by M. Henri Chéron, 16th December 1921, No. 796, p. 6.

¹² Report by M. Chéron, *op. cit.*, pp. 6 and 7.

III

Conclusion and criticism.

1. Taking everything into account, it would appear that the cost of the War to France may be put at 170 to 180 billions of francs. This would be less than the sum generally stated for Great Britain—£8,600,000,000 (215 to 220 billions of francs at the nominal par of exchange), and somewhat more than that generally stated as the cost of the War to the United States—\$32,260,000,000 (160 to 165 billions of francs at the nominal par of exchange).

2. These figures, so far as they concern France, are based upon incomplete calculations, and if accepted as final—which, of course, they were not intended to be—would be quite misleading as to the magnitude of France's war expenditure. I propose to demonstrate, in this connection, two things:

(a) It is certain that the war expenditure of France in money was far larger than the largest of the sums that result from the systems of calculation set forth above. The War involved France in an expenditure of money far exceeding 120, 130, 140, 170, or 190 billions of francs.

(b) It is impossible to calculate, at the present time, with a sufficient degree of approximation and by rational methods, what the War cost France. It may well be that such a calculation will never be possible.

SECTION II

WAR EXPENDITURE AND EXPENDITURE DURING THE WAR

When one is inquiring into the cost of the War, one must carefully distinguish between war expenditure and expenditure during the War. This evident distinction is currently made. Thus one distinguishes between expenditure incurred during the War relating to peace services, and expenditure incurred during the War relating to the War (see above p. 7). But this is not sufficient.

I. It is manifestly arbitrary to bring the period of war expenditure to a close on the day of the armistice, the 11th November 1918. Unquestionably a great national war does not, in respect of the expenditure that it involves, come to an end abruptly at the precise moment when the "cease fire" sounds, when the troops rest on their

arms, when the signatures of the plenipotentiaries are affixed to the armistice agreement. There is a period of demobilization in the wide sense of the term. In the Great War of 1914-1918, the whole nation had progressively been placed on a war footing. Not only had the able-bodied male population, from 18 to 50 years of age, been gradually summoned to the colors, but millions of women had been engaged in the munition factories; a very large number of the industries and trades of peace had been little by little transformed into industries and trades of war. Naturally, when the armistice had been signed, all this personnel, all these industries, had to be transferred from a war footing to a peace footing. The workmen had to be dismissed, contracts in course of execution had to be cancelled; and for such dismissals and cancellations enormous sums had to be paid as compensation. It was thought right in France to pay to each man demobilized (officer, non-commissioned officer, or soldier) a sum of money, called a demobilization bonus, and fixed at a minimum of 250 francs, but considerably increased for all such as had formed part of combatant units for a certain length of time. These few examples serve to show that war expenditure must not be confused with expenditure incurred during the War.

The Chancellor of the Exchequer, Sir G. C. Lewis, took this into consideration when determining the cost of the Crimean War, in his budget speech of the 13th February 1857. He did not limit himself to the two years of the war, 1854-1855 and 1855-1856, as a basis of calculation. He reckoned the year 1856-1857 as a war year, for the reason that expenditure had already been incurred as though there were to be a third year of war (1856-1857). He therefore took three years as the basis, not two.¹³ It was likewise the method followed by Mr. H. W. Chisholm for the calculation of the cost of the wars from 1688 to 1869.¹⁴

Professor Edwin Seligman, in his work above quoted on the cost of the War, has not failed to offer remarks in the same sense: "The attempt," he says, "to present in figures the cost of the War even in this restricted sense meets with several difficulties. In the first place, the question arises as to the period when we ought to stop. In one sense the War ceased when the armistice was declared: in another sense the War did not actually stop until peace was ratified. But even

¹³ See above, p. 7.

¹⁴ See above, p. 8.

when peace was made, the war expenditures were by no means over. The process of demobilization was a slow one and in many countries there have been considerable demobilization bonuses. Moreover it was necessary to continue for some time the policing of the conquered countries. Again, we must take account of the compensation to citizens for war damages; of the expenses of reconstruction; and of the loss on exchange of the depreciated currencies. Finally comes the question of the pensions to the wounded soldiers or to the families of the dead. It will be seen, therefore, how impossible it is to state with any accuracy at the present time the costs of the War, while these are still being incurred."

It will be seen that Prof. Seligman ends by attributing to the figures that he presents, as also to those presented by authors who have written or who may write before the liquidation is completed, a purely provisional character.

SECTION III

STATE WAR EXPENDITURE AND PUBLIC WAR EXPENDITURE

1. When the war expenditure of France is fixed at 120 to 180 billions of francs, the statistician has in mind only the public expenditure of *the State, in money*. The public expenditure in money of the local authorities is not comprised therein. And yet this too constitutes public war expenditure. If one wishes to compare the cost of the War to different States, one must know the amount of the State expenditure and the amount of the local expenditure, for the reason that the distribution of functions is not the same in all countries, notably in regard to public relief, old age pensions and insurance, public health, police, etc. The war expenditure incurred by the local authorities in France was very considerable. It was devoted principally to public relief.

2. It is, at the present time, impossible to state its amount; the publication, and doubtless the preparation, of official statistics concerning the departments, the communes, and the colonies, have been suspended since the outbreak of war.¹⁵ To form some idea of the

¹⁵ As regards the *communes*, the Ministry of the Interior published, in 1923, for the first time since 1914, general data concerning the financial situation; these data relate to the year 1920. The Ministry explained that,

magnitude of this local expenditure, it will suffice to note the increase of the money expenditure of the City of Paris alone. The *annual* expenditure of Paris has grown from about 431 million francs in 1914 to more than 1188 million francs in 1921.¹⁶

SECTION IV

VARIATIONS IN THE STANDARD OF MEASUREMENT OF
WAR EXPENDITURE

There is a factor which, as regards France, will render it extremely difficult to estimate the cost of the War, even when all the information required is available. The liquidation and payment of the war expenses properly so called proceed very slowly. Four years after the armistice, at the end of 1922, war expenses certainly amounting to tens of billions still remained to be liquidated. Foremost among these expenses ranked the indemnities payable to inhabitants of the devastated regions, and the cost of replacing the national equipment in the areas recovered from the invader (roads, railways, canals, public buildings, etc.; see below).

There are also a number of transactions completed, but not yet recorded in the central accounts, so that the amount of them is not known (special accounts, see below, pp. 40 *et s.*).

owing to the War, the publication of statistics for the intermediate period, 1914-1920, had proved impossible. (*Bulletin de statistique et de législation comparée*, 1923, II, pp. 500 *et s.*)

As regards the *departments*, the Ministry of the Interior has published, since 1923, a series of financial statements. But these contain very little information useful for our purpose.

16

Budget of 1914

Millions of francs

Expenditure from general funds	431.7
Expenditure from special funds	50.9
Total	482.6

Budget for 1921

Expenditure from general funds	1,188.8
Expenditure from special funds	345.7
Total	1,534.5

Bulletin de statistique et de législation comparée, 1915, I, p. 646; 1922, II, p. 164 *et s.*

Now, between 1914 and the day when the liquidation of the war expenditure will have been completed, the value of the national currency will have undergone enormous fluctuations. Down to the beginning of 1919, the value of the French franc varied, but not to a great extent. Since 1919, on the other hand, the variations have been considerable, as the following table will show:

Mean exchange rate of the dollar (par: \$ 1 = 5.12 fr.).

	1919	1920	1921	1922	1923
January	5.45	11.66	15.89	12.26	15.22
February	5.45	13.65	13.95	11.47	16.23
March	5.76	14.00	14.16	11.12	15.75
April	5.98	15.96	13.83	10.86	15.12
May	6.35	14.56	11.96	10.97	15.02
June	6.37	12.41	13.35	11.46	15.88
July	6.87	11.78	12.78	12.02	17.06
August	7.74	12.26	12.92	12.60	18.25
September	8.37	14.24	13.72	12.92	17.00
October	8.59	15.29	13.83	13.65	16.80
November	9.29	16.01	13.92	....	18.22
December	10.87	17.57	12.86	13.83	19.02

Between January and March 1924 there was a formidable rise in the dollar exchange, which reached 25.90. Then, from the 11th March 1924 to the end of April 1924, the dollar returned to the rate of about 15.50. During the second half of 1924 the dollar oscillated between 18 fr. 22 and 19 fr. 57.

	<i>Average</i>
July 1924	19.57
August	18.36
September	18.85
November	19.02
December	18.37

The year 1925 was a period of a rising dollar exchange.

In January 1925	18.75
In March	19.65

From the time of the acute crisis of April 1925 the dollar rose rapidly. In August 1925, the exchange was fluctuating about 21 fr. 50.

Meanwhile the cost of the War is being estimated in French francs, measured in French francs. How can one add up expenses which have been and will be, at successive periods, expressed in a unit of

varying value? If the value of the franc had not fallen, the amount of certain war expenses (the restoration, for instance, of the devastated areas and war pensions) would today be less considerable. If the day ever comes when the total of France's war expenditure can be stated, it will have to be remembered that this total expressed in francs comprises francs some of which are worth twice or three times as much as others.

We may also see from this how difficult it is to compare the war expenditure of the various belligerent States whose monetary units have fluctuated in value.¹⁷

SECTION V

THE COST OF THE WAR IS REPRESENTED BY THE EXPENSES INCURRED AND NOT BY THE CREDITS OPENED OR BY THE PAYMENTS MADE

There is one decisive reason that makes it impossible to adopt the figures hitherto put forward as representing the expenditure on the War. It lies in the ambiguity of the word "expenditure." What is "expenditure"? In the precise language of French financial technique, expenditure is the process, defined by the accounting regulations, by which public moneys are correctly issued from the public treasuries. This process is to be seen in all civilized countries. Four phases may be distinguished.

(1) The *authorization* of the expenditure by the Parliament; this is the *opening of the credit*, or, more simply, *the credit*.

(2) The *incurring* of the expenditure by the Minister or his delegates. Instances of this are: the conclusion of contracts for supplies or works, the conclusion of contracts of all kinds for the furnishing of things or personal services necessary to the working of the public service, the grant of allowances of all sorts (subsidies, pensions, etc.),

¹⁷ Professor Seligman has made the same remark in his article on the cost of the War: "Finally," he says, "the figures make no allowance for the changes in the price level or the alteration in the value of money. In a great war like the one just finished, prices always rise; in some countries they have doubled, in some they have more than trebled, for reasons which it is needless to discuss here. What seems, therefore, to be an increasing outlay from year to year may be in reality due, in part at least, to this cause." It may be added that Prof. Seligman, in his estimate of the cost of the War to France, has made no correction on account of this factor, which, indeed, it is very difficult to do.

the nomination of paid public servants, etc. These are a multitude of ways in which *expenditure* may be *incurred*.

(3) The *verification*, the *liquidation* and the *ordering* of the payment to be made: in the course of this administrative operation, the public department satisfies itself that a service has been rendered, that a debt has been incurred by the State, and that this debt has not been extinguished by prescription or forfeiture; it determines the *quantum* of the debt (liquidation) and refers to the budgetary credit by which it has been authorized (classification); finally it gives to a public cashier the order to pay, and to the creditor an extract from this order, which he will present to the cashier charged with the payment.

(4) The *payment* of the expense; this is the last phase in the process; the public cashier designated in the order to pay, pays the money to the creditor in exchange for a valid receipt.¹⁸

This being understood, it will be seen that, in order to calculate accurately the cost of the War, attention should be paid exclusively to the *expenditure incurred*. What, in fact, is required is to know what is the amount of the *debts* incurred by the State on account of the War. It is a matter of indifference whether these debts have been regularly *authorized* by Parliament, or have been effectively *paid* at the time when the calculation is made. Whether they have been regularly authorized or not, they will have to be paid. Whether the payment has been effected or not is a question of when it is due.

Once more, the war expenditure of a State is essentially the sum of the debts incurred by it, the expenditure incurred by it, for the purpose of the War.

SECTION VI

PREVIOUS CALCULATIONS OF THE WAR EXPENDITURE TAKE INTO ACCOUNT SOLELY THE CREDITS OPENED. PROOF OF THIS IN OFFICIAL STATISTICS AND SPEECHES OF MINISTERS OF FINANCE

All those who have attempted to estimate the cost of the War to France have used the word expenditure in an extremely narrow

¹⁸ For the details of this procedure, see Gaston Jèze, *Cours élémentaire de Science des Finances et de législation financière française*, 5th ed., 1912, p. 203 et s.

sense, that of budgetary credit, that is to say, of parliamentary authorization of expenditure.

Is this a sufficiently close approximation to expenditure incurred? The answer, as regards France, must be in the negative. On the one hand, in France, the Government, during the War, did not consider itself narrowly bound by parliamentary sanctions of expenditure. It incurred all the expenditure that it deemed necessary for victory. It is certain that the expenditure incurred was not kept within the limits of the credits assigned by the Parliament.¹⁹

Moreover, in France, authorizations to spend money granted by the Parliament are not valid for an indefinite period; they are valid for one year only, and they must be utilized before the 31st December of the budgetary years. Credits that are not applied to the incurring of expenditure before the 31st December are automatically cancelled. If the Government thereafter is of opinion that the expenditure should be incurred, it must apply to the Chambers for a new credit, for a fresh authorization. It happened during the War that large credits were not utilized within the period of their currency and had to be renewed.

The three conceptions, expenditure *incurred*, expenditure *authorized*, and expenditure *paid*, did not cover at all the same ground; they did not approximate to one another. But those who have calculated the amount of the French war expenditure have, for the purpose, made use of official statistics, of the official speeches of French Ministers of Finance in the Chamber of Deputies and in the Senate. These data relate solely to the credits opened by Parliament.

We must lay stress on this point, for it indicates decisively the unreliable character of the official calculations.

I

Let us first consider the official statistics.

The only official documents that we possess today are recapitulatory statements of the credits opened, each year, by the Chambers, from 1915 to 1919, and the budgets from 1920 onwards.

¹⁹ The expenditure incurred without corresponding credits amounts to billions of francs. See on this point the report of M. Bokanowski, deputy, 15th March 1924. *Chambre*, No. 7314, analyzed in the *Revue de science et de législation financières*, 1924, pp. 491 *et s.*

In 1920 the Ministry of Finance drew up, on this basis, a table of the war expenditure. Here is the table²⁰ in millions of francs.²¹ Subsequent official speeches have only reproduced it, bringing it up to date.

<i>Financial year</i>	<i>Total of Credits (millions of francs)</i>
1914	6,589.4
1915	22,804.5
1916	32,945.1
1917	41,679.6
1918	54,537.1
1919	49,793.9
Total	208,349.6

If the 50 billions of the year 1919 be deducted, and also the billions relating to November and December 1918, there remain about 150 billions of francs for the period July 1914–November 1918. It will be seen that the sum of the credits allocated by Parliament is the basis on which official documents rely for the calculation of the war expenditure.

II

Ministers of Finance, in their great parliamentary speeches, have also adopted the same basis.

On the 29th December 1919, M. Klotz, Minister of Finance, explained as follows the financial situation of France to the new Chamber of Deputies elected on the 1st November 1919:²² “The credits relating to the war period to the 31st December 1914 amounted to 9 billions 200 millions.²³ In 1915 the credits remained on a somewhat similar scale: for the full financial year they amounted to 22,800 millions, as compared with 9200 millions for five months. Then there

²⁰ *Situation des crédits ouverts ou demandés du 1^{er} août 1914 au 31 décembre 1919*, in the *Bulletin de statistique et de législation comparée* published by the French Ministry of Finance, 1920, I, p. 988.

²¹ The official document, in its desire for accuracy, has taken care to give the exact figure to one franc; it has stopped short of the centimes!

²² *Journal Officiel, Chambre, Débats*, pp. 5400 et s. This speech has been reprinted in the *Revue de science et de législation financières*, 1919, pp. 529 et s.; see in particular p. 535.

²³ The official statement reproduced above shows only 6 billions 589 millions.

came a headlong development: 33 billions in 1916; 42 in 1917; 54 in 1918 . . .; in 1919 the credits dropped to 48,300 millions. In short, . . . the authorized expenditure reached a total of 209 billions and a half."

Similarly three months later, on the 29th March 1920, M. François-Marsal, Minister of Finance, stated that "the credits voted by Parliament for the period of war, that is to say for the period from 1st August 1914 to the end of 1918, amounted to 158 billions 500 millions. The *credits* opened for 1919, excluding proposals now under consideration by the Parliament, reach the figure of 48 billions 500 millions. . . . The accounts, however, are not final; those of the financial year 1919, as regard the ordinary budget will be closed only on the 30th April 1920, and as regards military expenditure on the 30th August 1920."²⁴

The most recent financial statements invariably refer to the credits, and not to the expenditure incurred.

Let us take for example the explanatory statement attached to the budget bill for 1922 presented to the Chamber of Deputies on the 8th July 1921 by M. Doumer, Minister of Finance.²⁵ Although the Minister speaks of the "*expenditure* borne by the State" he is in reality referring to *credits* opened: "the expenditure borne by the State as a result of the War, whether during the actual progress of hostilities or in the period that ensued, is difficult to calculate. A strictly accurate result cannot be arrived at by direct estimates. A sufficiently close approximation may however be obtained by the following method.

The expenditure of all kinds in the five war	
months of 1914 attained	6,589 millions of francs
The expenditure of 1915 attained	22,804 millions
that of 1916	32,945 millions
that of 1917	41,680 millions
that of 1918	54,537 millions
that of 1919	49,039 millions
that of 1920	52,064 millions
that of the first half of 1921 may be esti-	
mated at	21,000 millions
<hr/>	
or in all, down to the 30th June 1921	280,658 millions

²⁴ *Journal Officiel, Chambre, Débats*, 29th March 1920, pp. 805 *et s.*, and in the *Revue de science et de législation financières*, 1920, pp. 235 *et s.*

²⁵ *Bulletin de statistique et de législation comparée*, 1921, II, pp. 1 *et s.*

"If from this total of 280 billions of francs, we deduct the expenditure that the State would normally have had to support—that is to say, at the rate of 5 to 6 billions a year, a sum of 35 to 40 billions,—we bring down the total sum paid by the Treasury on account of the War and its consequences to 240 billions."

The Minister was completely mistaken. The figures in question do not represent the "expenditure" of the State, nor "the sums paid" by the Treasury. They represent solely the credits. This is proved in the first place by the fact that the Minister merely reproduced and brought up to date the figures of the official statement drawn up in 1920 by the Ministry of Finance, which are given above on p. 22.

III

A second proof of the incorrectness of M. Doumer's ministerial statement lies in the fact that, at the present day (1925), even the amount of the *expenditure* paid by the Treasury cannot be stated.

By a resolution of the 27th May 1919, the Chamber of Deputies—on the proposal of the Budget Committee, which desired to know the amount of the payments effected in 1915—requested the Minister of Finance to furnish a provisional statement of the budgetary receipts and expenditure for the financial year 1915. This statement was prepared and published in 1919.²⁶ It shows that the *credits opened* under the head of the general budget for 1915 amounted to 23,128 millions²⁷ and that the *payments effected* in respect of the expenditure up to the time when the accounts of the year were closed amounted to 20,889 millions. The comparison of the credits placed at the disposal of Ministers with the expenditure paid by the public treasury brings to light that, taken all together, the payments of the financial year 1915 fell short of the credits granted by 2239 millions of francs.

A statement of the payments effected in 1916 and the succeeding years does not exist at the date of writing (1925).

In fact no official document furnishes us with any information on the most interesting point: the amount of the expenditure incurred. None of them deal with anything but credits opened. A "sufficiently

²⁶ *Bulletin de statistique et de législation comparée*, 1919, II, p. 261.

²⁷ The official statement published by the Minister of Finance in 1919, quoted above, p. 22, gives 22,800 millions. The administration does not explain the difference.

close approximation" to the expenditure incurred is therefore impossible.

IV

In the explanatory statement attached to the budget bill for 1923, the Minister of Finance, M. Lasteyrie, stated very clearly that, in order to draw up a table of the public expenditure for the period of the War, he had had only the credits opened by the Chambers to go upon:²⁸ "We will endeavor," he said, "to give an idea of the development of expenditure and receipts, and also of the treasury operations, from 1913, the last year not affected by the War, down to 1922. . . . The figures that we shall have occasion to give call for certain preliminary reservations. For the years 1913, 1914, and 1915, the figures have been taken from the drafts of the *lois de règlement*²⁹ and therefore duly represent the payments and the encashments effected. But from 1916 onwards, they are, as regards expenditure, simply the total of the sums sanctioned by the annual finance laws and by the supplementary credit laws, and as regards receipts, the total of the recoveries recorded monthly, as they appeared, subject to a few corrections, in the *Journal Officiel*. It may be asserted that the actual expenditure and receipts will finally prove to be, the former considerably below, the latter considerably above, our figures. . . . However imperfect our data may be, they are nevertheless sufficient to furnish a fairly clear idea of the progress of our expenditure and of our resources, and it is better to make the best of them than to continue arguing about abstractions."

Let us for the moment confine ourselves to noting the method of calculation adopted by the Minister, and the conclusion that, down to the end of 1924, it is impossible to discover, in official documents and official speeches, an exact statement of the war expenditure.

It should however be remarked that M. Edmond Théry, in his book on the *Conséquences économiques de la guerre pour la France* (Paris, 1922, pp. 274 *et s.*), has attempted to correct the manifestly

²⁸ *Projet de loi portant fixation du budget général de l'exercice 1923, deuxième séance du 31 mars 1922, Chambre des Députés, No. 4, 220, 1^{er} vol., p. 7.*

²⁹ *Loi de règlement*—the law approving and ratifying the use made by the Government of the credits granted in respect of a completed financial year.

[Translator's note.]

erroneous figures given by official documents and speeches. He begins by recapitulating "the expenses that the State was authorized to incur from the day of mobilization down to the 31st December 1918." He finds that these amount to 158,555 millions of francs. "These figures," he adds, "are not final, for certain unexpended credits will be cancelled when the accounts have been audited. But soundings taken make it clear already that the reduction to be anticipated under this head does not exceed 10 per cent. For the 53 months of war the State expenditure will thus amount approximately to 140 billions, or 2640 millions a month, on the average." After deduction of the peace expenditure (25 billions) "the difference, 115 billions in all, or 2200 millions a month, is a measure of the effective financial effort to which we were constrained from the middle of 1914 to the end of 1918."

The method of calculation adopted by M. E. Théry is better. But I am distrustful of the "soundings" of which M. Théry speaks. As we shall see, the public account-keeping during the War was defective. M. Théry omits to say to what soundings he alludes. It is wiser to treat the formula that he adopts as a mere rhetorical expression.

V

Are we better informed since the publication by the Government, in December 1924, of the *Inventaire de la situation financière de la France au début de la treizième législature*? At first sight it would appear so. On page 14 and the following pages, the Minister of Finance investigates the principal origins of the French public debt. This leads him to examine the course of public expenditure since 1914. He gives the following table as representing "expenditure defrayed during the War, in millions of francs."

Year	Military expenditure	Public debt	Civil services	So-called recoverable expenditure	Special accounts	Total expenditure
1914	6,526	1,360	2,000	372	108	10,371
1915	14,712	1,818	2,479	1,914	1,197	22,120
1916	23,853	3,327	2,817	2,947	3,904	36,848
1917	28,662	4,816	4,119	4,081	2,983	44,661
1918	36,120	7,021	5,443	5,952	2,113	56,649

What do these figures represent? *Credits, expenditure incurred, or disbursements?* The document does not say. At times it speaks of *expenditure defrayed*, which leads one to suppose that the figures are those of disbursements; but immediately after (pp. 15 and 16), it speaks of "credits" as synonymous with expenditure.

The same observation applies to the *expenditure of the post-war budget* (p. 21)—in billions of francs.

<i>Year</i>	<i>Military expenditure</i>	<i>Public debt</i>	<i>Civil services</i>	<i>Recoverable expenditure</i>	<i>Special accounts</i>	<i>Total expenditure</i>
1919	18.2	7.9	9.2	15.5	3.4	54.2
1920	7.6	11.7	11.4	22.3	5.1	58.1
1921	6.0	11.1	9.9	21.4	2.7	51.1
1922	5.0	13.6	7.7	22.1	0.5	48.9
1923	4.8	12.8	6.5	21.7	..	45.8

What reliance can we place on these figures? I confess that, for my part, I see no more in them than general indications to be accepted with great caution. I shall show presently that the prevailing disorder in the public accounts makes it impossible to draw up an accurate record of the State expenditure.

SECTION VII

DIFFICULTY OF ASCERTAINING IN THE NEAR FUTURE THE COST OF THE WAR TO FRANCE. DISORGANIZATION OF THE FINANCIAL SERVICES BY THE MOBILIZATION. CONFUSION IN THE PUBLIC ACCOUNTS

Can one hope in the near future to be able to determine accurately the amount of the expenditure incurred by France on account of the Great War? The hope must be abandoned for an indefinite period, owing to the disorganization of the Ministry of Finance and the confusion in the public accounts that followed on the mobilization. We have here a very serious evil due to a very laudable sentiment: the equal liability of all to military service.

I

In France, this is a doctrine profoundly rooted in the public mind. It is doubtless no exaggeration to say that the French people attach more value to equality than to liberty. For them, justice means equality.

However this may be, the consequence of this passion for equality was that military legislation prior to the Great War showed little concern to protect the public service from the disorganization that might result from a general mobilization. It was the same sentiment that induced the Parliament, under the pressure of public opinion, to send the ministers of religion in the first place to the colors, and then into the combatant units, in spite of the commandment, "Thou shalt not kill."

Similarly the financial services were deprived of the greater part of their technical personnel of military age. The public account-keeping suffered severely in consequence: the establishment of the personnel had been reduced to a skeleton, while the work had formidably increased.

The mischief was recognized after the War. When the parliamentary committees wished to obtain accurate information regarding the financial situation, the Ministry of Finance was utterly unable to supply it. During the War, the determination to enforce equality of sacrifice on all men of military age led to this result. No Government would have had the power to prevent it.

Such is the fact. Here are a few significant official declarations regarding these lacunae—doubtless irremediable—in the public accounts for the period of the War. These lacunae will render an exact estimate of the public war expenditure, of the cost of the War, extremely difficult if not impossible to draw up.

II

In the explanatory statement attached to the draft law submitted to the Chamber of Deputies on the 7th June 1920 by M. François-Marsal, Minister of Finance,³⁰ it is said: "For the last six years we have been living under a precarious and provisional régime, to which

³⁰ *Projet de loi relatif à la réorganisation de l'Administration Centrale des Finances, Journal Officiel, Chambre, Documents 1920*, pp. 1576 et s. See also the explanatory statement prefixed to the bill determining the conditions under which the war accounts should be audited (8th November 1921, *Chambre, annexe No. 3311*); the report presented by M. Evain, deputy, on behalf of the Committee of Final Accounts (14th March 1923, *Chambre, annexe No. 4693*); the opinion presented by M. Bokanowski, deputy, on behalf of the Finance Committee (2nd sitting of the 7th June 1923, *Chambre, annexe No. 6121*).

the circumstances arising out of the mobilization have condemned us. The application of nearly all the rules that constituted the strength of our system of public accounts has had to be suspended. It has not been possible to this day to classify finally the greater part of the receipts and expenditure. It has not been possible to settle the accounts of any of the financial years subsequent to 1914. It has not been possible to allocate the proceeds of loans. Suspense accounts have been multiplied both in the books of the accountants and in those of the Treasury, and these show balances of several billions comprising not only expenditure, the clearing of which becomes every day more difficult, but also genuine advances, the recovery of which as time passes appears increasingly problematical. It is impossible, until this chaos has been set in order and the arrears cleared up, to restore the necessary lucidity to our affairs, to determine the rules that shall hereafter govern the services, to draw up the budgetary establishments within which they shall be confined, or to set up that true control over public expenditure to the establishment of which the Chambers have not ceased during the last ten years to direct their attention."

The same official statement reveals fresh causes of disorganization, subsequent to the armistice: "Unable to secure fresh assistance, the administration found it equally impossible to retain its skilled personnel. Many of the best officials, sure of finding remunerative employment as accountants, asked for and obtained appointments away from headquarters. Others, belonging to all grades of the hierarchy, requested to be placed 'en disponibilité' or resigned, and they reappeared subsequently occupying far better paid posts in private business. A lamentable state of unsettlement was the result, affecting even the directors' posts, and fatal to all continuity: during the last twenty years, the director of the general movement of funds has been changed eight times, the controller of financial services nine times, the director of personnel and *matériel* twelve times. Moreover the central administration has, from these causes, lost valuable officials, whose coöperation would have been, and would now be, at the present critical moment, of great assistance."

The confusion was great: "We have had to recruit, to a large extent, a casual staff, without its being possible in many instances either to train it or to direct it. The total staff has been raised to 6000 persons, while the establishment of clerks fell to a hundred or so.

The annual cost has risen from 5 to more than 38 millions and yet it has not been possible to get the most urgent work done or to prevent the decay of the whole service. It is quite certain that the result would have been very different if the framework had not been systematically weakened."

The mischief has steadily increased since 1920. The department of the general movement of funds has had yet another new chief. Private businesses, by offering positions that were attractive, pecuniarily and socially, have drawn off directors and sub-directors from the Ministry of Finance.

III

The Minister of Finance, M. de Lasteyrie, in the explanatory statement relating to the draft budget for 1923, set forth the evil from which the administration suffered during the War, and which has not yet been remedied: "The burden on the Treasury accountants, during and since the War, has exceeded all expectations. We had, in 1914, no idea of the formidable amount of expenditure that we were called upon to incur. No one had foreseen, either the development of the system of allowances, or the bread policy, or the requisition of factories, or the continual issue of National Defense bonds, or the loans that were soon to make our pre-war debt of thirty billions appear insignificant. The tremendous spending activity of all the services reacted on the accountants and finally translated itself into entries in their books and vouchers in their accounts: 50 billions of francs paid in 1920, 6 billions of pensions to issue, more than 200 millions of coupons of *rente* to pay, 65 millions of *rente* holdings created, the military allowances, the premiums on demobilization, the war bonus, the exchange of money warrants for the invaded areas, to say nothing of the special accounts, the operations on which for the first quarter of 1921 alone exceeded the figure of the pre-war budget. Mention should also be made of the accounts of various new institutions—departmental offices for the wards of the nation, departmental committees for disabled soldiers, agricultural offices, etc. All these operations came rolling down on the accountants' offices and overwhelmed them, so that they found it impossible to adhere to the traditional rules by which the concentration of the accounts of State expenditure is secured. Delays were added to delays, with the result that the general journal for 1915 was

closed, and the general balance of the National Debt accounts at 1st January 1916 was struck, only on the 27th April 1922.”³¹

“This rapid review,” concluded the Minister,³² “of the gaps and weak points in our financial administration is inspired by no idea of criticism. We fully recognize the enlightened labor of our officials as well as the results of the efforts made by previous Governments and by the Chambers to restore order in all parts of our financial administration; but the work still remaining to be done is considerable. In order to achieve it we must pursue an energetic policy of administrative reform. We must, to begin with, reorganize our department of public accounts. The credits voted by Parliament have already allowed us to reinforce establishments and staff to the extent that was strictly indispensable, and to obtain a better output of work from all the accountants, by modernizing the material equipment of the service. The measures that it has thus been possible to adopt have already borne their first fruit: at the present day 58 general treasuries out of 89 are working absolutely normally; in a dozen of them the arrears amount to less than one month; the others, while finding it difficult to submit their returns and documents at the regulation dates, are daily improving their organization; in the near future, we shall see the restoration of pre-war order and regularity in every part of this domain.”

IV

Since the armistice, recriminations with regard to this state of things have been incessant in both Chambers. It appears to be forgotten that no one thought about it during the War.

The *Rapporteur Général*³³ of the Finance Committee of the Senate, M. Doumer, drew attention, in very forcible terms, to the confusion in the public accounts: “The Government has no clearer idea of the budget than has Parliament,” he said to the Senate, on the 30th December 1920,³⁴ a few days before his appointment to be Minister of Finance. “And what is there surprising in this, when the State has

³¹ *Exposé des motifs du projet de budget pour 1923, Chambre, No. 4, 220*, pp. 106 and 107.

³² *Ibid.*, p. 108.

³³ When a commission or committee is appointed, in France, one member is selected as chairman, and another as *rapporteur*. The latter is charged with the duty of preparing the report.

³⁴ *Journal Officiel, Sénat, Débats*, p. 2046.

no accounts? I repeat that the State has no accounts at the present day. Ask the Minister of Finance what he spends in a month: he will be unable to tell you. The only figures that it has been possible to submit to us are those representing the receipts. The honorable Minister—I do not wish to take him to task too severely on this point—even made the mistake at one moment of presenting to us a figure as relating to expenditure that really related to receipts.”

The Minister of Finance: “The two are very often the same; nothing remains over of the receipts.”

The *Rapporteur Général*: “The Minister replies that it is all the same. No doubt; since the only accounts kept at the present day consist in recording what is received. What would be the position of a trader who confined himself to noting his receipts, without recording his expenditure? And this is the state of confusion that has been reached at the Ministry of Finance! Such a state of things must come to an end. If the methods of the war years are allowed to continue for one year more, there will be an indefinite prolongation of this period of confusion and financial crisis, which aggravates the present perilous economic situation of the country.”

A few months later, in his report to the Chamber of Deputies on the draft budget for 1921 (Ministry of Finance), M. Renard confirmed previous statements as to the confusion of the public accounts:³⁵ “Needless to insist on the gravity of the danger to our public finances if such methods were to continue to prevail. No balanced account of receipts and expenditure has been kept since 1914; the last account was drawn up in 1913; and if one thinks of the enormous sums that have been received and issued by the cash offices of the Treasury during the last six years, without any exact balance having ever been struck between these incomings and outgoings, one may fear that the final balance sheet, when it comes to be drawn up, will have some disagreeable surprises in store for us. In any case, an end must be put to these irregularities.”

What most disturbed public opinion, in connection with the confusion in the public accounts, related to the amount of the National Defense bonds³⁶ in circulation. It was stated in 1922, by the Minister

³⁵ *Revue de science et de législation financières*, 1921, p. 611.

³⁶ These are Treasury bills, with terms varying from one to twelve months. The system is fully explained in M. Truchy's work, Part II of this volume, pp. 253 *et s.*

of Finance in person, that the official figures hitherto published were incorrect. The error amounted to 7 billions of francs.

Here is the passage in the explanatory statement attached to the budget bill for 1923 in which the error is pointed out and explained. The Minister of Finance had wished to know exactly the amount of National Defense bonds in circulation. Up to then the official documents had recorded month by month the amount issued, the amount paid off, and the balance in circulation. These documents, the Minister stated, were incorrect: "It recently appeared necessary to have the figures concerning the National Defense bonds in circulation, which have hitherto appeared in the official documents, verified by an inquiry conducted by the Inspectorate-General of Finance. The inquiry led to the conclusion that the bonds in the hands of the public on the 31st December 1921 amounted to about 58,500 millions instead of 65,420 millions. Moreover, the distribution of the bonds among the several categories—1 month, 3 month, 6 month, and one year bonds—proved to be different, in favor of the one year bonds, from that which had been previously accepted. The reduction effected, as a result of this inquiry, in the credit opened for interest on National Defense bonds, allowance being made for the recent diminution in the rate of that interest, amounts to 374 millions."

In order to explain these errors, the Minister added: "The uncertainty that prevails as to the total amount of the bonds in circulation is to be explained by the haste with which the department had to organize, in 1914, without adequate facilities of staff or material, an issue comprising an unprecedented quantity of securities and based on an entirely novel procedure. The necessary steps have been taken to remedy this state of things by organizing an accurate system of accounts and an efficient check of the issues. The exact audited figures as soon as they have been compiled will be communicated to the financial committees."

Official quotations might be multiplied, recognizing the confusion that prevails in the public accounts of France. I will only mention the special accounts, without dwelling on them. They will be discussed below (pp. 40 *et s.*).

V

The severest criticisms passed on the Ministry of Finance were insufficient, and necessarily so, to restore order to the public ac-

counts. It is a lengthy task. In the month of November 1922, the *Rapporteur Général* of the Finance Committee of the Senate, M. Henri Bérenger, submitted to his colleagues a statement of the financial situation of France from which it would appear that there had been no improvement: "There are nowhere in France any general national accounts. Those which are occasionally supplied to the Assemblies, whether at the time of the annual budget or when important loans or issues are authorized, are merely accounts based on approximations that are widely inconsistent with one another and of which the least that may be said is that, for lack of reliable figures, they are only correct within a few billions, as in the case of the National Defense bonds or in that of the liquidation of the special accounts, or again in that of our foreign debts and credits."

It is a matter of public notoriety. On the occasion of M. Bérenger's statement, the great newspaper, *Le Temps*, in its issue of the 12th November 1922, recalled the efforts made by the *Cour des Comptes*³⁷ "to secure that normal records and regular accounts should be restored." It added: "If we may not hope to obtain for a long time—if indeed we ever do obtain them—the accounts of the war period, at any rate it is intolerable that reliable statements should not be drawn up now."

Everyone in France familiar with this question was unanimous in thinking that in order to get the public accounts of the war period prepared and settled, procedure must be simplified. In 1921, M. Doumer, the Minister of Finance, submitted a draft law to Parliament in this sense, with a view to expediting as much as possible, according to a new time-table and by a simplified procedure, the settlement of the war accounts.³⁸ It took a long time to get this law voted by the Chambers. In 1922, the Minister of Finance, M. de Lasteyrie, urged Parliament "to sanction this proposal, which is of a really important and urgent character."³⁹

³⁷ *Cour des Comptes*. The official tribunal by which the public accounts are audited. Its functions resemble those of the Comptroller and Auditor General in Great Britain. [Translator's note.]

³⁸ Draft of the 8th November 1921, *Chambre, annexe No. 3311*; see also the report of M. Evain (*Chambre*, 14th March 1923, No. 4693) and the opinion of M. Bokanowski (*Chambre*, 7th June 1923, No. 6121).

³⁹ *Exposé des motifs du projet de budget pour 1923. Chambre, No. 4220*, p. 108.

VI

The months passed and the situation improved very slowly. On the 20th February 1923, in the Senate, the *Rapporteur Général* of the Finance Committee, M. H. Béranger⁴⁰ asked the Government to do its utmost to get the accounts of expenditure and receipts at last drawn up, if not of the War—this appears to be postponed to a distant future—at any rate of the post-war period. “We experience very great difficulty,” said M. Béranger, “in establishing for the war years and more particularly for 1920, 1921, and 1922, a precise and general account of the national receipts and expenditure. The Minister of Finance is in a position to know this. These difficulties are due to the delay in auditing the special war accounts. Our honorable colleague, M. Doumer, at that time Minister of Finance, no doubt submitted in 1921 a draft law with the object of laying down rules by which a rigorous and precise method should be re-introduced into the public accounts. This draft, which was laid about 18 months ago on the table of the other Chamber, has been referred not to the Finance Committee of the Chamber, but to the Final Accounts Committee. No report has been presented or published since then. In consequence, it is impossible to draw up an exact statement of the country’s accounts, and we have at our disposal only approximate and incomplete figures.

“You know that before the War the Minister of Finance published yearly a large and very complete blue-book, which gave under the heading of ‘General accounts of financial administration’ an accurate statement of all the expenditure and all the receipts of the financial year. This statement constituted, so to speak, the financial balance sheet of France, and allowed not only members of the Parliament but also the public at large to learn the true financial situation of the country. The publication of this volume has been interrupted since 1914. It cannot be resumed until the Chamber has pronounced itself and has allowed us to pronounce ourselves on the bill that was submitted to it by the Government in 1921. We are thus without one of the essential documents on which a scrutiny of the budget can be founded. This is a regrettable lacuna in the financial organization of a republican State.

“I should like to ask the Minister of Finance why this bill has not

⁴⁰ *J. O., Sénat, Débats*, p. 344.

yet been considered by the Chamber of Deputies. Has the Government no personal means of action by which it could secure that this draft should at last be placed on the order of the day of the other Assembly?

"Estimates of receipts and expenditure can be drawn up with some chance of being correct only if the amounts of the receipts and expenditure of the earlier years are previously known. The General Accounts of the financial administration meet this requirement and that is why the republican régime has always made it a point of honor to publish them regularly every year. I am sure that I am interpreting the sentiment of the whole Senate when I ask the Government and particularly the Minister of Finance to set the foundations of the public accounts once more in order."

To this pressing inquiry, the Minister of Finance could make only a somewhat dispirited reply. He too recognized the deficiencies in the public accounts since 1914. He hoped, if the Chamber of Deputies would assist him, to resume the regular publication of accounts at the end of 1923.

"Our accounting service," the Minister, M. de Lasteyrie, explained, "suffered exceedingly from the War; during four years, with a casual staff, in which experienced officials were almost entirely lacking, it had to attend to the most urgent business and disregard a large number of regulations; accounts therefore were not kept, or rather were kept only so far as concerned the most essential parts. The service had to confine itself more or less to the daily recording of the transactions effected, and these have never been posted up; it has not been possible to prepare any recapitulation, as used to be done before 1914.

"The General Finance Accounts, in which all our accounts are summarized, set out, as you are aware, the result of all the transactions, receipts or expenditure, effected under budgetary sanction or as treasury operations during the year in question. They are distributed to the Chambers and enable Ministers to justify to Parliament the use they have made of the credits placed at their disposal; they likewise provide the *Cour des Comptes* with a document wherewith to audit the accounts of the public accountants.

"These general accounts form, as you may suppose, an extremely voluminous document, difficult and complicated to draw up, and throughout the period of the War it was impossible to undertake the

work of posting and checking that its preparation requires. My honorable predecessor, M. Paul Doumer, felt concern at this situation, and some 18 months ago he laid on the table of the Chamber a draft law with the object of rendering easier the audit of the war accounts by special measures designed to expedite the procedure. The principal provision of the draft was that a line should be drawn at the 1st January 1921 in the accounting entries, so that a fresh start might be made and that regular accounts of our expenditure and receipts such as were kept before the war might be resumed.

"I fully agree with the *Rapporteur Général* as to the overwhelming importance of the regular preparation hereafter of the General Finance Accounts and of enabling the Parliament to understand clearly, as it is its right and duty to do, the vast operations carried out by the various public services. The draft law in question has been referred to the Committee of Final Accounts, before which my honorable predecessor and myself have appeared a certain number of times. The Committee has introduced various amendments in the draft. I have pressed on several occasions, both by letter and when I have been heard by the Committee, for the submission of their report. I will do so again, in the most urgent terms, and I am convinced that the Committee will comply with my request, for it was only a few days ago that M. Evain, the reporter, informed me that his report was finished and that he was about to present it. I shall then do my utmost to secure its immediate discussion and I hope that the present situation, on which the *Rapporteur Général* has just dwelt so forcibly and justly, will shortly be remedied, and that no later than the end of the year we shall resume the regular publication of our accounts, which are, I repeat, the basis of our financial system and of the control that Parliament is entitled to exercise."⁴¹

VII

This appeal was at last heard, and the procedure under which the accounts of the war period are to be audited was laid down by the law of the 21st December 1923.⁴² The general system prescribed is as follows.

⁴¹ *J. O., Sénat, Débats*, p. 344.

⁴² The text of this law is in the *Revue de Sc. et de lég. fin.*, 1914, pp. 16 *et s.*; and in the *Bulletin de statistique et de législation comparée*, December 1923, II, pp. 1122 *et s.*

In order to secure the complete resumption of the regular service of public accounts (daily record of entries, production of the various statements of account at the dates laid down by the regulations), the law draws a very clear line between transactions prior to the 1st January 1921 and those subsequent to that date.

(1) As regards transactions subsequent to the 1st January 1921, the balances of cash in hand and other credits at that date are taken as the point of departure and the numerous accounts relating to earlier transactions are disregarded. The cash and other credit accounts are debited with these balances in the books of the accounting officers (*trésoriers-payeurs généraux*)⁴³ and a simple suspense account is credited, which will ultimately be debited or credited as the receipt or expenditure transactions of earlier periods come to be settled. Thanks to this measure, a clean separation having been made from the past, the audit of the war accounts no longer threatens to weigh indefinitely on current work, and the financial administration will be able, as regards transactions effected from the 1st January 1921 onwards, to require accountants to revert to the strict observance of the peace-time accounts regulations.⁴⁴

(2) For the period prior to the 1st January 1921 (war accounts) the law of the 29th December 1923 simplifies the rules regarding the preparation of the accounts and the regularization of expenses paid after the close of financial years; and it adopts new rules regarding the record of issues of National Defense bonds, regarding the liquidation of the accounts of the paper money issued in the invaded regions, and regarding the acceptance of simplified proof of payment in respect of certain categories of expenditure.

(3) Finally, the law of 1923 fixes a time-table for the simultaneous submission of war accounts and accounts of current administration. This time-table alone shows that for a long time to come, until 1930, it will be impossible to know exactly, by means of verified official documents, the public expenditure incurred by the French State during the War and for the War.

Here is the time-table fixing the dates for the submission of the "general accounts of financial administration," of the draft law of

⁴³ For the position and functions of these officials, see M. Truchy's work, part II of this volume, pp. 242-243.

⁴⁴ See the before-mentioned report of M. Bokanowski, of the 7th June 1923, No. 6121, pp. 5 and 6.

appropriation, and of the general certificate of conformity by the *Cour des Comptes*, and for the distribution to Parliament of the general certificate and of the report.

I. War period (Years 1915-1920 inclusive).

	<i>General Account</i>	<i>Law of Ap- propriation</i>	<i>General Certificate</i>	<i>Distribution of Certificate and Report</i>
1915	31 Dec. 1921	31 May 1922	31 Dec. 1922	31 May 1922
1916	31 Dec. 1923	30 June 1924	30 Nov. 1924	31 May 1925
1917	31 Oct. 1925	30 Mar. 1926	31 Aug. 1926	28 Feb. 1927
1918	31 Aug. 1926	31 Mar. 1927	31 Aug. 1927	29 Feb. 1928
1919	31 Aug. 1927	31 Mar. 1928	31 Aug. 1928	28 Feb. 1929
1920	31 Aug. 1928	31 Mar. 1929	31 Aug. 1929	28 Feb. 1930

II. After-war period (Years 1921-1923 inclusive).

	<i>General Account</i>	<i>Law of Ap- propriation</i>	<i>General Certificate</i>	<i>Distribution of Certificate and Report</i>
1921	30 Apr. 1924	30 Sept. 1924	28 Feb. 1925	31 Aug. 1925
1922	31 Dec. 1924	31 Mar. 1925	31 Oct. 1925	30 Apr. 1926
1923	31 Mar. 1925	31 Aug. 1925	30 June 1926	31 July 1926

III. Period subsequent to 1923 (1924 and following years).

Publication of the General Account	31st December of the year in which the financial year is closed.
Submission of draft Law of Appropriation and of Ministerial accounts	31st May of the year following that in which the financial year is closed.
General certificate of conformity	31st December of the year following that in which the financial year is closed.
Distribution of the certificate and the report	31st May of the second year following that in which the financial year is closed.

Such were the dispositions of the law of the 29th December 1923. The audit of the public accounts appears likely to be a slower process than the legislature had foreseen. In August 1924, the Procurator General of the *Cour des Comptes*, M. Maurice Bloch, announced that the adoption in council of the general certificates of conformity for the financial year 1915 had not been possible before the 13th and 14th June 1924, whereas they should have been published on the

31st December 1922 at latest. As regards the years 1916 and following, the Procurator General remarked that "the disorder in certain accounts has been such, the difficulties in the way of presenting them in due form have been so great, that it is already certain that the limits of time imposed for their audit by the law of 1923 cannot be observed." Finally, according to M. Bloch, in August 1924, "none of the separate accounts for 1921 has yet reached us, and the general finance account which, for that year, should have been published on the 30th April 1924, has not yet been distributed."⁴⁵

SECTION VIII

NECESSITY OF TAKING INTO CONSIDERATION EXPENDITURE ON EXTRA-BUDGETARY ACCOUNTS

A very important factor in the cost of the war to France has hitherto been too much neglected, because investigators have studied only the *budgetary* documents and the *budgetary* accounts. The *special accounts* must also be considered.

Special accounts were in current use in France even before the War. They multiplied during the War, and gave rise to so much squandering that from 1921 onwards every effort was made to put an end to them. These special accounts contain a mass of expenditure which, as will be seen, must be included in the cost of the War.

The general principle that underlies many of these special accounts is the following. A number of official bodies were created in France during the War for the purpose of ensuring the food supply of the civil population and of the armies; they bore different names and their financial operations (expenditure and receipts) were not comprised in the general budgetary expenditure. From an accounting point of view, their expenditure and receipts were recorded, outside the budget, in special accounts, of which a large number were opened. The best known and, from a financial point of view, the most important were those relating to Supplies (wheat, sugar, motor spirit, petroleum, coal, etc.), and to the Mercantile Marine.

In the case of the Supplies account, the expenditure consisted of the purchases by the Government or by the special authority; the receipts were the sales effected. For instance, the Wheat Supply Service bought wheat, but also sold it.

⁴⁵ *Revue de science et de législation financières*, 1924, pp. 508 et s.

Every special account can therefore, in theory, show either a debtor or a creditor balance. But these accounts could not be suddenly balanced on the day of the armistice. Before the real result of the business could be known, all these accounts had to be liquidated. Work on this liquidation has been proceeding in France since 1921. At the end of 1922 it was still incomplete.⁴⁶ It could however be stated that this liquidation would increase the war expenditure by a considerable number of billions of francs. Is it possible to obtain today, if not the exact figure, at any rate an approximate idea of it?

In his general report on the budget bill for 1923, M. Bokanowski replies in the affirmative: "It is even now possible," he writes, "to estimate *with sufficient closeness* the burden that the special accounts have laid on the finances of France. The position of several of them at the 1st January 1922 revealed a considerable excess of expenditure. Thus the Supplies account, which was created or reorganized by a series of laws dating from the 16th October 1915, to the 4th April 1919, showed on the 1st January 1922 a debtor balance of 5,194,365,000 francs. The aggregate debtor balances of the special Treasury services reached the following figures:

in 1914	108 millions of francs
in 1915	1,197 millions of francs
in 1916	3,904 millions of francs
in 1917	2,983 millions of francs
in 1918	2,113 millions of francs
in 1919	3,387 millions of francs
in 1920	5,092 millions of francs
in 1921	2,714 millions of francs
in 1922	500 millions of francs ⁴⁷

The *Inventaire*⁴⁸ published in December 1924 by the Ministry of Finance merely reproduces these figures, which shows that the liquidation has made no progress since 1922. In any case, the criticism of the statistics of 1922 applies equally to those of 1924.

But after having stated that it is possible to estimate "with sufficient closeness the burden that the special accounts have laid on the finances of France," the *Rapporteur Général*, M. Bokanowski, makes

⁴⁶ Statements to the same effect of M. Henri Bérenger and the Minister of Finance in the Senate, 20th February 1923. *J. O., Sénat, Débats*, p. 344.

⁴⁷ *Chambre, 1922, No. 4,820, I, pp. 82 et s.*

⁴⁸ See above, p. 26.

certain reservations, as follows: "These figures, however, are only approximate estimates and not the exact amount of the charge imposed on the Treasury in respect of special accounts during the years in question. The Government itself has pointed out, in the explanatory statement attached to the draft budget, that numerous purchases abroad have been paid for by the Treasury out of credits provided in foreign countries; these transactions, not being yet finally liquidated, are not completely included in the special accounts. Moreover, there has been considerable delay in ascertaining the receipts and expenditure, notably as regards the services dealing with the mercantile marine, food supplies, motor spirit and petroleum, which had entered into numerous transactions abroad.

"But whatever corrections may have subsequently to be made to the figures that we now possess, the State undertakings organized during the War, which gave rise to the opening of these special accounts, have unquestionably had deplorable results.

"The total of the expenditure represented by the special accounts will certainly not be less than 35 billions. We must congratulate ourselves that we shall soon see the end of a type of expenditure that is difficult to control and gives rise to *obscure and complicated accounts, which are completed only after a long delay, and with a dangerous lack of precision.*"

This last part of the *Rapporteur Général's* observations states the real truth. It is impossible to name approximately at the present time the amount of the debtor balance on the special accounts which will have to be included in the cost of the War. I shall endeavor to demonstrate this more clearly.

We must again refer to the origin and the evolution of the special accounts. The opening of a number of special accounts during the War was a legitimate proceeding.⁴⁹ This applies to all those accounts in which the expenditure was to be covered by the receipts. But under cover of this correct idea, abuses crept in: a multitude of transactions that should have figured in the budget were recorded outside it, in special accounts. So that, while in 1913 the total of

⁴⁹ See the explanation and criticism of these accounts in Gaston Jèze, *Cours de Science des finances*, 6th ed., 1922, *Théorie générale du budget*, pp. 89 et s.; see also the explanatory statement prefixed to the budget bill for 1922, presented by M. Doumer to the Chamber of Deputies, 8th July 1921 (*Bulletin de statistique et de législation comparée*, 1921, II, pp. 9 et s.).

receipts and expenditure on special accounts was less than 700 million francs, in 1920 it had reached about 30 thousand million francs. Moreover the transactions on these accounts escaped parliamentary control. Lastly, the heads of services placed in charge of these transactions did not keep systematic accounts. As a consequence, there was unlimited squandering and some embezzlement; and great obscurity now reigns over the final results of these services.

The Parliament had no doubt endeavored to prevent abuses, by prescribing certain measures of control. But these were not applied, on the ground that the pressure of circumstances was too great. The Chambers were not discouraged; they insisted, but without success. Thereupon, to put an end to the waste and the speculation, they adopted a radical measure; by the Finance Law of the 30th April 1921 (Art. 34) they ordered all the accounts to be liquidated and directed the Government to present a statement of the position of all these accounts regularly on the 1st January of each year. In accordance with these directions, the budget of 1923 showed the situation of the special accounts.⁵⁰

At first sight this statement appears to furnish very precise information as to the excess of receipts or of expenditure, and consequently as to the sums to be included in the war expenses. Here is an extract from the statement.

*State of the Principal Special Treasury Accounts opened for
the conduct or for the liquidation of the War
(in millions of francs).⁵¹*

<i>Accounts</i>	<i>Situation on the 1st January 1921</i>		<i>Situation on the 1st January 1922</i>	
	<i>Excess of receipts</i>	<i>Excess of expenditure</i>	<i>Excess of receipts</i>	<i>Excess of expenditure</i>
Advances to foreign Governments or establishments	8,674.0	.....	10,885.4
Grant of military stores to foreign Governments (Law of 29th Sep- tember 1917)	3,785.4	.....	1,828.3
Advances to Chambers of Com- merce in connection with the War	25.3	.....	16.6
Recoverable advances to various manufacturers for purpose of				

⁵⁰ *Chambre, 1922, No. 4220, pp. 316 et s.*

⁵¹ *Projet de budget pour 1923, Chambre, No. 4220, pp. 316 et s.*

THE WAR EXPENDITURE OF FRANCE

<i>Accounts</i>	<i>Situation on the</i>		<i>Situation on the</i>	
	<i>1st January 1921</i>	<i>Excess of receipts</i>	<i>1st January 1922</i>	<i>Excess of expenditure</i>
national defense. (Decrees of 27.iii. and 15.vii.1915; laws of 28.ix.1915 and 27.i.1917)				
(1) Advances recoverable out of the price of supplies	.....	43.7	.....	44.4
(2) Advances repayable by instalments	.....	12.9	.....	17.2
Supply of wheat and flour to the civil population. (Laws of 16.x. 1915, 20.iv.1916, 30.x.1916, 7 and 8.iv.1917, 4.iv.1918)	.....	3,376.8	.....	5,194.4
National bread supply	.....	294.4	.....	829.5
Cost of reconstruction of main railway lines destroyed or damaged by acts of war (Law of 29.vi. 1917)	.....	971.6	.....	1,639.2
Cost of reconstruction of local railway lines destroyed or damaged by acts of war (Law of 30.xii. 1917)	.....	103.7	.....	261.9
Main and local railway lines (Law of 10.i.1917)	.....	1,034.7	.....	1,477.4
Agricultural restoration of the invaded departments (Law of 3. viii.1917)	127.6	.....	183.7	.....
Industrial restoration of the invaded departments (Law of 6. viii.1917)	1,604.9	.....	122.4	.....
Marine insurance against war risks	151.7	.....	102.2	.....
(Law of 29.ix.1917) { Voluntary	29.4	.....	28.0	.....
{ Obligatory	283.6	.....	291.6	.....
Sea transport { 1. Sea transport	597.8	.....	379.9	.....
Purchase and construction of ships { 2. Purchases and construction	39.6	.....	65.6	.....
(Laws of 25. iii.1918, and 30.vi.1919) { 3. Foreign ships worked by France	32.3	.....	29.0	.....
Merchant ships operated by the State (Law of 29.xii.1919)	.....	6.5	.....	10.4
Increased bonus to demobilized soldiers				

<i>Accounts</i>	<i>Situation on the</i> <i>1st January 1921</i>		<i>Situation on the</i> <i>1st January 1922</i>	
	<i>Excess of</i> <i>receipts</i>	<i>Excess of</i> <i>expenditure</i>	<i>Excess of</i> <i>receipts</i>	<i>Excess of</i> <i>expenditure</i>
Supply of agricultural chemicals (Law of 20.vi.1918)	134.7	.....	104.2	.....
National boot supply (Law of 23. xi.1918)	20.0	.....	35.4	.....
Maintenance of troops of occupa- tion abroad (Law of 31.xii. 1918)	.....	582.8	.....	770.1
Exchange of money bonds of the invaded areas (Law of 11.ii. 1919)	.....	1,986.3	.....	1,986.3
Advances to small traders and manufacturers on demobilization (Law of 24.x.1919)	33.0	.....	13.6	.....
Liquidation of purchasing associa- tions and offices created during the War ⁵² (Law of 31.vii.1920)	.....	.....	.....	1.7
Motor-spirit and petroleum service (Law of 31.vii.1920)	.....	.....	1,616.0	.....
Alcohol account	.....	4.3	.....	116.2
Fuel supplies	120.6	.....	.....	29.1

If, instead of confining ourselves to appearances, we press our investigations further, we shall see that the preceding table furnishes no exact information as to the amount of the war expenditure.

(1) To begin with, the figures included therein “do not represent exactly the total, as regards receipts or expenditure, of the contracts entered into by the State or with the State: there remain, indeed, a very large number of transactions to be regularized from the purely accounting point of view. This regularization will be proceeded with as rapidly as possible; it will require appropriate facilities and a special organization; these are under consideration and proposals will be submitted to Parliament.”⁵³

(2) In consequence of the fictions peculiar to the system of public accounts, the balance of receipts or expenditure that figures in those accounts does not always reveal the real position of the special account in respect of the Treasury; that is to say, they do not show

⁵² These were associations of manufacturers or dealers formed, under State control, to effect purchases. [Translator's note.]

⁵³ *Exposé des motifs du projet de budget pour 1923, Chambre, No. 4220*, p. 323.

whether there has been finally an excess of receipts or expenditure by the State.

Take, for example, the account "National bread supply," which "records the receipts and expenditure effected for the purpose of the said law"—of the 9th August 1920—"from the first day of the month following its promulgation." The Law of the 12th August 1920 fixed at 10,366 millions of francs the expenditure on the new special account for the year 15th August 1920-15th August 1921. This same law opened a credit in the general budget, in the estimates for Supplies for the financial year 1920, amounting to 1304 millions of francs, to meet the deficiency of receipts in the special account for bread cereals for the season 1920-1921.

Now, the statement of account, "National bread supply," shows on the 1st January 1922 an excess of expenditure of more than 829 millions of francs. "But it should be observed that this result is due to the fact that the afore-mentioned budgetary credit of 1304 millions of francs figures as a receipt among the entries in the special account; this sum must therefore be allowed for in order to bring out the true position of the Treasury in respect of this special account."⁵⁴ This amounts to saying that the balance of expenditure on national bread supply is much more considerable than appears from a perusal of the special account.

Take again the special account "Agricultural restoration of the invaded departments." The special account is debited with the amount of the purchases, the subsidiary expenses, the payment of agents and the expenditure on the personnel and *matériel* of the office. The account is credited, to begin with, with the budgetary credits opened in favor of the Minister of the Liberated Areas for working capital, amounting to 400 millions of francs, and in the second place with the produce of the advances made.⁵⁵

It follows from this that the balance on the 1st June 1922, which figures in the accounts as an excess of receipts of 183 millions of francs, does not give at all a correct idea of the expenditure incurred by the Treasury. This excess of receipts does not by any means signify that the service in question realized a profit for the State of 183 millions. It indicates the position of the account only if one treats the

⁵⁴ *Exposé des motifs du projet de budget pour 1923, Chambre, No. 4220*, pp. 338 and 339.

⁵⁵ *Op. cit.*, p. 345.

receipts and expenditure of the said account in a special conventional sense, without being at all concerned to bring out the definite charge to the public Treasury. I repeat, in these 183 millions is included that portion of the credit of 400 million francs of working capital opened by the budget in favor of the Minister of the Liberated Areas which has not yet been reimbursed by the account.

(3) Occasionally liquidation has reached a stage where the account shows an excess of receipts, whereas ultimately this excess will be much smaller or may even be replaced by an excess of expenditure.

Let us take, for instance, the account "Motor-spirit and petroleum service." In the appendix to the budget bill for 1923⁵⁶ this account shows, on the 1st January 1922, an excess of receipts of 1616 millions of francs. But if we turn to the bill relative to the receipts and expenditure on the special accounts for 1922,⁵⁷ one sees, to begin with, that the credit balance is not 1616 millions, but 1955 millions. No explanation is furnished to dissipate the impression caused by this inconsistency. Further, the Minister warns us that this credit balance is only apparent. "We must take into consideration the expenditure to be debited in 1922 to the special account for the settlement of purchases made abroad, the amount of which is estimated at 2108 millions of francs."⁵⁸ Finally he states that "it will be possible to close the account definitely in 1923; the freight of the tanker will continue to be charged to it until April 1923; it will receive on the other hand the yield of the equalization surtax so long as it is maintained; the regularization of the expenditure incurred abroad, and the administrative and financial liquidation of the whole of the transactions, involve considerable delay."

Instances might be multiplied. It is evidently difficult in these conditions to discover even approximately the true excess of expenditure or receipts—not of a particular special account—but of the service, that is to say the sums to be finally charged to the war expenditure of the State, after allowing for the receipts of the service.

For my part, I am unable to say whether the figure of 35 billions, put forward in 1922 by the *Rapporteur Général* of the Finance Committee of the Chamber of Deputies and reproduced in the *In-*

⁵⁶ *Chambre, 1922, No. 4220*, pp. 320 and 321.

⁵⁷ *Projet de loi portant fixation, pour l'année 1922, des recettes et des dépenses des comptes spéciaux, Chambre, 24 février 1922, No. 3, 965, p. 39.*

⁵⁸ *Projet No. 3965, op. cit.*, p. 39.

ventaire of December 1924, represents approximately the charge that will have ultimately to be included in the war expenditure of France.

SECTION IX

PROCEEDS OF THE LIQUIDATION OF WAR-STOCKS TO BE DEDUCTED

The cost of the War to a country in money is the *net* amount of the obligations it has incurred less the receipts that the public Treasury has encashed in respect of the War. These receipts may be more or less considerable. For, in war-time, circumstances lead Government departments to accumulate enormous stocks; supplies are laid in as if hostilities were to go on indefinitely. Then, when the general armistice comes, it is found that the supplies, the stocks, are too large to be utilized within a short period, in the normal course of the public service; or even that they are perfectly useless in peacetime. To keep them against a future war, in the distant future, would mean forgoing the advantage of technical improvements for the sake of utilizing what is in hand. It would mean moreover incurring a heavy expense for the storage and upkeep of things which it may ultimately prove impossible to utilize.

In these conditions it appears imperatively necessary to liquidate these stocks, to sell them—reserving of course whatever is needed for the public service. What is kept and the proceeds of the sale must evidently be deducted from the cost of the War.

In France the liquidation of the stocks began in 1919.⁵⁹ It was completed in 1924. The French Government affirmed in 1924 that it was possible to state the net yield of this liquidation so far as the American stocks were concerned.

The sums entered as receipts in the accounts are the gross proceeds. It is impossible, from the information published, to ascertain the cost of liquidation: the personnel employed for the purpose is

⁵⁹ There have been three liquidations of stocks in France: (1) the liquidation of the French stocks; (2) the liquidation of the stocks handed over to France by the American Government for a lump sum of 407,341,145 dollars—about 2507 millions of francs at the par of exchange (Law of the 21st October 1919); (3) the liquidation of the railways and stocks of railway plant handed over to the French Government by the British Government (Law of the 31st July 1920, Art. 69).

not entirely a special personnel; a part of the cost of liquidation is therefore comprised in the general expenditure of the State.

Nor is this all. It is not easy to discover, from the published accounts, the proceeds of the liquidation of the stocks. They are mentioned in the general budget under the heading of "proceeds of liquidation of the stocks." There are, moreover, three special Treasury accounts: liquidation of the American stocks, liquidation of the British stocks, transfer of stores to foreign Governments. In spite of its general title, the proceeds included in the receipts of the general budget under the heading "proceeds of liquidation of the stocks" include only the price of the sale or transfer of the French stocks. To-day (1925) the result is known for the *American stocks*. As regards the *French* and *British stocks*, I know of no official document that has so far given it (August 1925).

One would have supposed that the liquidation of the enormous stocks accumulated during the War would yield very considerable sums. And yet it appears that the net proceeds—if the amount is ever known—will not exceed five billions. The liquidation of the stocks has given rise to numerous scandals, embezzlements, and abuses of every kind. The Under-Secretary of State for the Liquidation of Stocks, M. Emmanuel Brousse, gave a frank account of them at the tribune of the Chamber of Deputies on the 15th February 1921.⁶⁰ The chief characteristics of this liquidation were carelessness and confusion on the part of the Government departments, dishonesty on the part of many purchasers of the stocks, corruption on that of many public employees entrusted with the business.

Here are, according to M. Brousse, a few illuminating facts. First as regards the carelessness of the departments in the selection of purchasers of stocks: "At the outset," said M. Brousse, "it was thought that it would be possible to reduce the cost of living by throwing on the market, at a low price, enormous quantities of goods from the French or American stocks. The cost of living was not reduced by one cent. On the other hand this policy had the effect of enriching thousands of speculators who used to buy up the stocks at trifling prices and sell them again at rates increased by as much as 500 per cent. When the liquidation began, assignments of goods were effected to anybody, whatever his profession might be, without

⁶⁰ First sitting of the Chamber, 15th February 1921, *J. O., Chambre, Débats*, pp. 525 et s.

any guarantee as to his financial or moral qualifications, and without any liability on his part. The latter would hawk his assignment round Paris or the provinces, and pass it on to one middleman after another, each of whom raised the price. If the last found that the goods were still at an advantageous price and left him a sufficient profit, he would take delivery of them (at the original price of course); if not, he left them unpaid for. In the latter event the liquidator had no recourse against the defaulting assignee. The goods, having remained several months in store, had deteriorated. They had to be sold again at a lower price, and it was the State that had to bear the whole of the loss . . .”

As for the carelessness and confusion of the administration, they were flagrant: “Considerable stocks of goods belonging to the Ministry of War,” said M. Brousse in 1921, “are being kept in the provinces nine times out of ten in order that the officers who are at the head of the service responsible for their storage may be retained. The stocks in course of liquidation are at the disposal of every service, of every Ministry.”

The corruption of a large number of employees engaged in the liquidation was appalling: “We have dismissed thousands of employees,” says M. Brousse, “from the stores; others have been degraded. We have discharged officers who were worn out or incapable; we have turned out a host of speculators. . . . One day, I called for the judicial files of the employees of the liquidation camps. Some of these had undergone sentences of as much as ten years, for theft, embezzlement, or swindling. I turned all these people out.”

M. Brousse gave some figures:⁶¹ “I have taken proceedings in 510 cases. There were 463 sentences of imprisonment, fines amounting to 91,868 francs, excise duty amounting to 91,782 francs, 683,203 francs of civil compensation to the State. Of the staff, 4271 persons were dismissed; of the staff dismissed, discharged or sent back to the camps, 3488 were not replaced; of 28 heads of service, 27 were changed.”

It is not surprising that the proceeds to the public Treasury of a liquidation carried on in these conditions were not very considerable. Nor are they easy to calculate, for the official figures are not very

⁶¹ *J. O., Chambre, Débats*, 1921, p. 541. M. Brousse does not explain the difference between the staff “dismissed” and the staff “dismissed, discharged, or sent back to the camps.”

precise. On the 15th February 1921, the former Under-Secretary of State for Finance declared⁶² that the State had received, at the end of the year 1920, 5237 millions of francs for the *French and American* stocks. He analyzed as follows the total of these *gross* receipts. As regards assignments to foreign Governments, assignments to Ministries and to public services, out of the *French stocks*, the value of the goods assigned, according to M. Brousse, was 2,534,877,163 francs. Of this only 1,185,743,579 francs had been paid. Out of the *American stocks*, the public services and foreign Governments had taken goods to the value of 1,572,462,555 francs, but had paid only 372,764,068 francs. In all, concluded M. Brousse, out of 4,107,339,718 francs' worth of French or American stocks assigned to foreign Governments or French public services, only 1,558,507,647 francs' worth had been paid for.

As regards private individuals, the total assignments (from French and American stocks) up to the end of 1920 had amounted to 3,848,391,324 francs. Out of this sum, private individuals had paid 3,678,690,268 francs.

In all, French and American stocks assigned to private individuals, Ministries, public services, and foreign Governments, had yielded, to the 31st December 1920, 7,955,731,042 francs, in respect of which payment had been made to the amount of 5,237,197,915 francs.

These figures represent the *gross* proceeds. What was the cost of liquidation? M. Brousse has stated that under his administration, in 1920, the percentage of general cost, for the various *American* camps, was only 2.60 on the average. For the *French* stocks, from the beginning of the liquidation down to the 1st December 1920, M. Brousse stated that only 13,810,176 francs had been spent. This would not be much.

⁶² *J. O., op. cit.*, p. 539.

Here are other figures. According to the budget bill for 1923,⁶³ the proceeds of liquidation of the French stocks amounted

in 1919	to	1,207 millions of francs
in 1920	to	1,649 millions of francs
in 1921	to	1,501 millions of francs
in 1922 (estimated)	to	500 millions of francs
in 1923 (estimated)	to	125 millions of francs
In all		4,982 millions of francs ⁶⁴

These figures do not agree with those of M. Brousse, seeing that the latter, in respect of assignments to foreign Governments or to French government departments alone down to 1920, gave the figure of 2535 millions assigned and 1186 millions paid.

Moreover the Government's figures give only the *gross* proceeds, not the *net*. To obtain the latter, the cost of liquidation would have to be deducted. This has not yet been made known by the Government.

The proceeds of the liquidation of the American and British stocks should be treated separately. In respect of the American stocks alone France assumed a debt of \$407,341,145. Has this debt been covered by the proceeds of the liquidation of these stocks? This was not known until the operation had been completed.

The *Inventaire* published by the Government in December 1924⁶⁵ gave a very complete account of the liquidation of the American stocks. The price of the goods sold amounted on the 31st August 1924 to 3317 millions of francs, of which sum 2739 million francs had been recovered. In order to determine the profit or loss on the transaction, the Minister of Finance compared the debt of 400 millions of dollars incurred by the French Government with the value

⁶³ Bill referred to, 1922, No. 4220, p. 38 and p. 98.

⁶⁴ These figures differ from those contained in the Finance Laws:

1919	Not ascertained
1920	2,915 millions
1921	1,501 millions
1922	500 millions
1923	125 millions
<hr/>	
5,041 millions	

⁶⁵ *Inventaire de la situation financière de la France au début de la treizième législature*, December 1924, *Chambre des députés*, No. 441, pp. 57 et seq.

in *dollars* of the price obtained for the goods assigned by it, calculated at the average rate of exchange of each quarter since 1919. The result is deplorable. Against a French debt of 400 millions of dollars, the State can only set a credit of 270 million dollars, and actual encashments have amounted only to 220 million dollars. The transaction has resulted in a *deficit* of 180 million dollars. But the deficit is even heavier, for France has had to pay each year 20 million dollars as interest on the lump sum of 400 million dollars, while she has encashed no more than 220 million dollars.

The Government has given the following explanation of this unfortunate result: "The purchase price was fixed before detailed inventories had been prepared and checked by both parties; the sales could not on all occasions be properly organized, in consequence of the magnitude of the task with which the Government was suddenly confronted,⁶⁶ and which it had to undertake immediately, without having either the personnel or the skilled staff required for the purpose; the goods were inadequately protected, which caused rapid deterioration; the throwing on the market, moreover, of so considerable a mass of similar objects was bound to lower their price; finally, the Treasury supported the whole of the loss on a contract, the charge of which was fixed in a stable currency while the receipts were exposed to all the risks of a fluctuating currency. In order to measure the danger that we incurred, it is sufficient to recall that the dollar, the exchange value of which oscillates today (December 1924) between 18 and 19 francs, was not quoted above 7 fr. 25 on the 1st April 1919, when the contract was made. Thus we have had to bear the whole loss resulting from the reduction in the value of our currency, and this is the principal cause of the unfavorable outcome of this transaction."

⁶⁶ The operation of the liquidation of stocks ought to have been organized during the War. As early as 1916, as a member of the Contracts Commission of the Department of Munitions and on behalf of the Commission, I repeatedly drew the attention of the Ministry of Finance to this eventual liquidation. The Domains Administration finally replied that it felt perfectly capable of undertaking it.

SECTION X

TO CALCULATE THE COST OF WAR TO FRANCE, THE SOLUTION OF THE PROBLEM OF INTER-ALLIED DEBTS MUST BE KNOWN

The cost of the War to France can naturally include only the real expenditure remaining finally to her charge. Now, on the one hand, the French Government received considerable sums from the British Treasury and from the American Treasury; these are what is known as the war loans. On the other hand, the French Government granted considerable advances in money or in kind (transfers of stores) to certain allies. According as these loans are or are not reimbursed, the cost of the War to France will be smaller or greater.⁶⁷

At first sight, it seems impossible to say what the solution will be. Will it be the same for the sums borrowed and the sums lent by France? If France must repay, will this charge not be aggravated by the definite bankruptcy, total or partial—but inevitable—of some of France's debtors? The amount of France's war expenditure, of the cost of the War to her, may vary by tens of billions of francs according to the decisions arrived at in the matter of inter-allied debts. Here is a statement, as at the 30th June 1924, of the capital sums due by and to France, in respect of the loans of allied Governments one to another.⁶⁸

I. Long term debt.⁶⁹

Advances by the American Treasury.⁷⁰ \$2,933,516,232

⁶⁷ In his study of the cost of the War, Professor Edwin R. A. Seligman observes with truth that the question of the settlement of inter-allied debts ought to be taken into consideration (*Essays in Taxation*, 10th ed., p. 751): "The richer countries made advances to the poorer countries, and these expenditures are sometimes counted twice in the total—a procedure legitimate only on the assumption that the loans will not be repaid." In his article, written in 1919, Professor Seligman was naturally unable to include this factor in his calculation, seeing that the question was still unsettled in 1922.

⁶⁸ *Inventaire*, December 1924, *Chambre*, No. 441, p. 266.

⁶⁹ *Dette à terme*—i.e., repayable after more than one year.

[Translator's note.]

⁷⁰ This does not include the price of the stocks transferred by the United States to the French Government. The latter handed to the American Government, in respect of these stocks, bonds representing a sum of \$407,341,145 (see above, p. 52). We have already referred to this debt, which is quite distinct from the allied loans. The question of cancellation set out in the

II. Floating debt.

Treasury bills handed over to the British Treasury.

£619,602,900⁷¹

It is impossible to estimate in francs the amount of this debt, owing to fluctuations in the exchange. We may merely note that at the rate of 20 francs and 100 francs to the dollar and the pound respectively, the advances of the American Treasury represented a little less than 58,665 millions of francs, and those of the British Treasury a little more than 61,960 millions of francs, or in all about 120,625 millions of francs. But with the depreciation of the franc, these debts expressed in francs are now far more considerable.

On the other hand, France, on the 30th June 1924 was owed about 15,133 millions of francs, as follows:⁷²

	<i>Millions of francs</i>
Italy	350.3
Serbia, Montenegro, Yugoslavia	1,738.6
Rumania	1,132.0
Greece	537.5
Belgium, Belgian Congo	3,023.3
Poland	895.4
Czecho-Slovakia	542.2
Estonia	3.5
Lithuania	2.3
Lettonia	9.0
Russia	6,513.3
Portugal	9.0
Hungary	331.8
Austria	.9
Total	15,133.1

It should be observed that the loans made by France to her allies were made in francs. The fall of the franc involves automatically a text does not here arise. But the variations in the exchange make the debt very onerous for the French Government, which received francs and is bound to repay in dollars. In any case this debt will have to be paid. Strictly speaking, it is not a war debt.

⁷¹ On the 28th April 1925, the British Government stated that the sums lent to France (including arrears of interest) amounted on the 31st March 1925 to £620,224,000. Budget statement by Mr. Winston Churchill.

⁷² *Inventaire*, December 1924, *op. cit.*, p. 271.

diminution of the French claim on the allied countries. This is an important aggravation.

Such is the situation as it appears. It causes much concern to the public authorities and to public opinion. The cancellation pure and simple of the inter-allied debts is much desired by French public opinion. If this were to take place, the war expenditure of France would be reduced by several tens of billions of francs. No illusions are cherished in France as to the recovery of the advances made by the French Government to the Allies. Public opinion felt confident that Great Britain and the United States would cancel their claims on France.

Be this as it may, we have here a factor of the highest importance in the calculation of the cost of the War to France. In the opinion of some, too much weight should not be attached to it: sooner or later, they say, the force of circumstances will bring about a general and reciprocal cancellation of inter-allied debts. And this will take place whatever arrangements to the contrary may be made. On what does this opinion rest?

I

Let us note, to begin with, that up to the present the passage of time has not rendered this reciprocal cancellation easier. As soon as the War ended, in all the countries concerned, economists and financiers drew the attention of the Governments to the necessity of settling *without delay* this delicate question. Later, they said, it would be a more complicated matter.

In France, in 1919, both in the Parliament and outside it, the urgency of adopting this solution was pointed out, and certain arguments were developed of a nature to induce the negotiators of the Peace Conference to accept it.⁷³ "During the War," it was said, "it was understood that victory could not be obtained without a pooling of financial resources. Now that victory has been secured, an approximate equalization of sacrifices would result if the lending States were to abandon all or part of their claim on their allies, at any rate on those whose economic situation has been seriously impaired by the

⁷³ Gaston Jèze, *La répartition équitable entre les alliés des charges financières de la guerre*, in the *Revue de science et de législation financières*, 1919, pp. 614 et s.

War. This has been done by England and by France (and subsequently by the United States) as regards Belgium, and with justice. But the situation of France is analogous. It may well be said that the losses of all kinds that she has suffered are even greater than those of Belgium. France, which poured out blood and treasure unstintingly to win the victory, has a *right* to an equitable apportionment of the financial burden resulting from the War. Justice requires that the Allies who advanced money to her during the War should release her from this debt. Otherwise, the French will remain convinced at heart that certain countries have enriched themselves at the expense of their allies, and that the sacrifices of some have increased the prosperity of others.”⁷⁴

It was recalled that, in Paris, in February 1915, Mr. Lloyd George had accepted by anticipation this system of settlement by contribution. Had he not signed the *communiqué* by which the Governments of the allied countries (Great Britain, France, and Russia) informed their peoples and the world that they were determined to unite their financial as well as their military resources?

Similarly, it was added, at the end of 1918, Mr. McAdoo, Secretary to the American Treasury, in his report for the financial year ending the 30th June 1919, had made certain declarations of which advantage might be taken: “It is difficult,” wrote Mr. McAdoo, “to exaggerate the great purposes served and the great results accomplished by these advances to foreign Governments. In the most critical stage of the War they immeasurably assisted America’s gallant associates in obtaining the munitions, supplies and equipment that were so imperatively needed to meet the enemy’s offensives or to carry the fighting into his territory, and probably of equal importance was the fact that they served to hearten the allied armies and peoples by the knowledge that the vast credit resources of the United States were being shared with them for the effective prosecution of a common cause. Conversely, it is not difficult to estimate the disheartening effect that these loans of billions and willingness of

⁷⁴ Gaston Jèze, *op. cit.*, p. 617. Compare the speeches of M. Ribot in the Senate, 17th December 1918 (*J. O., Sénat, Débats*, pp. 881 *et s.*), 30th May 1919 (*J. O., Sénat, Débats*, pp. 844 *et s.*), 30th December 1919 (*J. O., Sénat, Débats*, p. 1892); and the speech of M. Jacques Stern in the Chamber of Deputies, 28th December 1918 (*J. O., Chambre, Débats*, pp. 3679 *et s.*).

America to lend for the prosecution of the War as much more as was needed, to the limit of her ability must have had upon the spirit and morale of the peoples and armies of the enemy. . . . *The service of these loans in assisting to hold the battlefronts of Europe until the might of our heroic army could be felt effectively*, made possible, beyond the shadow of a doubt, the ending of the War in the Fall of 1918. Without this aid to the allied Governments the War unquestionably would have been prolonged, if not lost, with the resultant great additional cost in life and treasure."

The French authorities—who were most interested in the settlement of the inter-allied debts—thought it wiser not to press this question on the Peace Conference. They doubtless considered the double problem of reparations for the damage caused by the enemy and of security against a fresh German invasion a matter of more urgency and greater importance for France. Besides, was the settlement of the inter-allied debts really so pressing, and would it not be possible to return to this problem subsequently, when the two other problems had been resolved? Whatever may be the reason, the Peace Conference in Paris came to an end without a settlement of inter-allied debts. Months and years have passed, and with the lapse of time the question has assumed a new aspect. The selfishness of nations has asserted itself. The armistice of 1918, indeed, did not put an end to the charges that the War had brought with it. The weight of taxation appeared even heavier when the nations were no longer goaded by the fear of defeat and of the inevitable disasters that it would entail. Each country compared the fiscal burden that it was bearing with that of its neighbors, and over-estimated its weight; each considered its own charge the heaviest.

II

This has happened especially in the United States. In that country, certain politicians, abandoning the old ideas of solidarity in warfare, have not failed to argue in a manner calculated to carry away the public: "Our fiscal effort during the War was unexampled. Without us, the War would have been lost. We entered the War with pure hearts and without ambition. We come out of it conquerors, without claiming any of the spoils. We ask neither for territory, nor for colonies, nor for war indemnity, nor even for the reimbursement of our expenditure, which however we should be entitled strictly to

demand. Is it not just that our Allies, who have derived profit from the War, should repay us the loans that we made them?"

Legally, they continue, the debt is incontestable. A *loan*, not a *subsidy*, was granted. International relations become impossible if the word given is not observed, if debts freely contracted are not loyally repaid. It is not true that the War was waged for ends that were entirely common to the Allies. Each State had its own aims: France wished to reconquer Alsace-Lorraine; she wished to subdue an economic and colonial rival. Why should the American taxpayer pay for these things in which he has no personal interest?

This conviction has been reinforced by the discussions at the Washington Disarmament Conference. The French authorities had thought to find, in the alliance promised in the name of the United States and inserted in the Treaty of Versailles, the principal guarantee against any German revenge. The American Senate had rejected this alliance. Hence the opposition of the French Ministers to the proposals for disarmament. Certain persons in the United States saw in this attitude a lurking sentiment of imperialism. Has Prussian militarism then, they said, been struck down only to be replaced by French militarism? The loans of France to Poland, to Rumania, etc., in 1923, were interpreted as confirming this accusation. The profound ignorance prevailing in the public mind with regard to the problems of foreign policy explains these feelings of distrust. Their influence, at any rate, on the settlement of inter-allied debts has been considerable. If France, it was said, wants conquests and armies, let the French taxpayer pay for them and not the American.

There has likewise been some criticism, in the United States, of the attitude of the French Government down to 1924 in the matter of the reparations required from Germany. Why did it refuse reparations *in kind*? Why constantly threaten Germany with measures of coercion? This refusal and these threats have occasionally been put forward as proof that the French Government did not, in reality, wish to be paid, that it wanted a pretext for annexing the left bank of the Rhine. The responsibility for the terrible economic crisis in which Europe and the whole world have been involved since the armistice would thus rest with the French Government.

Finally certain American politicians have sought to take advantage of the irresistible current of opinion in favor of the grant of

bonuses to ex-soldiers; this current had first manifested its influence in the State Legislatures, almost all of which had voted Soldiers' Bonus Acts in different forms.⁷⁵ The Federal Congress in 1922 passed a Bonus Bill. The cost was to amount to several thousands of millions of dollars. And, in the minds of several of the promoters of the measure, the expenditure might be met by the reimbursement of the loans made during the War to Great Britain, to France, and to Italy.

The President of the United States vetoed the federal Bonus Bill, and the special majority required by the Constitution to overcome the presidential veto was not available.⁷⁶ All these facts explain the unfavorable attitude at the present time (1925) of American public opinion towards the cancellation of inter-allied debts; and up to now the settlement of these debts depends on the attitude of the United States.

In order to satisfy public opinion, the Senate and the Chamber of Representatives voted on the 9th February 1922 a law by which the 15th June 1947 was fixed as the latest date for the payment of the debts due to the United States by foreign Governments who had received war loans, and 4½ per cent was laid down as the minimum rate of interest thereon. The American Government stated, by the mouth of several of its Ministers, and in particular of Mr. Mellon, Secretary to the Treasury, and of Mr. Hoover, that it intended to apply the law adopted by Congress. Indeed, Great Britain, deferring to the request of the United States, signed a convention with that State on the 19th June 1923 by which the British Government undertakes to pay an annuity of 160 million dollars (interest and sinking fund) during 62 years.

⁷⁵ A synthetic study of these state laws will be found in an article by Mr. Charles Kettleborough, in the *American Political Science Review*, August 1922, XVI, pp. 455 *et s.*

⁷⁶ Federal Congress again voted a Soldiers' Bonus Bill in April 1924, in spite of President Coolidge's declaration, in his message of December 1923 (budget), that he was opposed to such a measure. Congress set aside the presidential veto, and the bill became law (19th June 1924). On the demobilization bonus granted to the soldiers of the Great War by this law, see G. Jèze, *Revue de science et de législation financières*, 1925, pp. 5 *et s.*

III

Thus the United States refuse to cancel the inter-allied debts. But, on the other hand, up to now, Great Britain has made the cancellation of her claim depend on the attitude of the United States. This was declared formally by the British Government, even before the convention of the 19th June 1923, in the famous Balfour note of the 1st August 1922. It had not been the intention of the British Government, it is there stated, to demand from their allies the reimbursement of the advances. As however the United States insist on being repaid immediately the sums lent by them during the War, the British Government find themselves compelled to abandon the policy of a general cancellation, which appeared to them the most just and the most advantageous for all. The cancellation of the British claim, without the cancellation of the American claim on Great Britain, would have the effect of throwing an intolerable burden on the British taxpayer, the fairness of which would not be apparent to him.

Here are the chief characteristic features of the Balfour note of the 1st August 1922:

Speaking in general terms, the war debts, exclusive of interest, due to Great Britain at the present moment amount in the aggregate to about £3,400,000,000, of which Germany owes £1,450,000,000, Russia £650,000,000, and our allies £1,300,000,000. On the other hand, Great Britain owes the United States about a quarter of this sum—say £850,000,000 at par of exchange, together with interest accrued since 1919.

No international discussion has yet taken place on the unexampled situation partially disclosed by these figures; and, pending a settlement which would go to the root of the problem, His Majesty's Government have silently abstained from making any demands upon their allies, either for the payment of interest or the repayment of capital. But, if action in the matter has hitherto been deemed inopportune, this is not because His Majesty's Government either underrate the evils of the present state of affairs, or because they are reluctant to make large sacrifices to bring it to an end. On the contrary, they are prepared, if such a policy formed part of a satisfactory international settlement, to remit all the debts due to Great Britain by our allies in respect of loans, or by Germany in respect of reparations.

Recent events, however, make such a policy difficult of accomplishment. With the most perfect courtesy, and in the exercise of their un-

doubted rights, the American Government have required this country to pay the interest accrued since 1919 on the Anglo-American debt, to convert it from an unfunded to a funded debt, and to repay it by a sinking fund in twenty-five years. Such a procedure is clearly in accordance with the original contract. His Majesty's Government make no complaint of it; they recognize their obligations and are prepared to fulfil them. But evidently they cannot do so without profoundly modifying the course which, in different circumstances, they would have wished to pursue. They cannot treat the repayment of the Anglo-American loan as if it were an isolated incident in which only the United States of America and Great Britain had any concern. It is but one of a connected series of transactions, in which this country appears sometimes as debtor, sometimes as creditor, and, if our undoubted obligations as a debtor are to be enforced, our not less undoubted rights as a creditor cannot be left wholly in abeyance.

His Majesty's Government do not conceal the fact that they adopt this change of policy with the greatest reluctance. It is true that Great Britain is owed more than it owes, and that, if all inter-Allied war debts were paid, the British Treasury would, on balance, be a large gainer by the transaction. But can the present world situation be looked at only from this narrow financial standpoint? It is true that many of the Allied and Associated Powers are, as between each other, creditors or debtors, or both. But they were, and are, much more. They were partners in the greatest international effort ever made in the cause of freedom; and they are still partners in dealing with some, at least, of its results. Their debts were incurred, their loans were made, not for the separate advantage of particular States, but for a great purpose common to them all, and that purpose has been, in the main, accomplished.

To generous minds it can never be agreeable, although, for reasons of State, it may perhaps be necessary, to regard the monetary aspect of this great event as a thing apart, to be torn from its historical setting and treated as no more than an ordinary commercial dealing between traders who borrow and capitalists who lend. There are, moreover, reasons of a different order, to which I have already referred, which increase the distaste with which His Majesty's Government adopt so fundamental an alteration in the method of dealing with loans to allies. The economic ills from which the world is suffering are due to many causes, moral and material, which are quite outside the scope of this despatch. But among them must certainly be reckoned the weight of international indebtedness, with all its unhappy effects upon credit and exchange, upon national production and international trade. The peo-

ples of all countries long for a speedy return to the normal. But how can the normal be reached while conditions so abnormal are permitted to prevail? And how can these conditions be cured by any remedies that seem at present likely to be applied?

For evidently the policy hitherto pursued by this country of refusing to make demands upon its debtors is only tolerable so long as it is generally accepted. It cannot be right that one partner in the common enterprise should recover all that she has lent, and that another, while recovering nothing, should be required to pay all that she has borrowed. Such a procedure is contrary to every principle of natural justice and cannot be expected to commend itself to the people of this country. They are suffering from an unparalleled burden of taxation, from an immense diminution in national wealth, from serious want of employment, and from the severe curtailment of useful expenditure. These evils are courageously borne. But were they to be increased by an arrangement which, however legitimate, is obviously one-sided, the British taxpayer would inevitably ask why he should be singled out to bear a burden which others are bound to share.

To such a question there can be but one answer, and I am convinced that Allied opinion will admit its justice. But while His Majesty's Government are thus regretfully constrained to request the French Government to make arrangements for dealing to the best of their ability with Anglo-French loans, they desire to explain that the amount of interest and repayment for which they ask depends not so much on what France and other Allies owe to Great Britain as on what Great Britain has to pay America. The policy favored by His Majesty's Government is, as I have already observed, that of surrendering their share of German reparation, and writing off, through one great transaction, the whole body of inter-Allied indebtedness. But, if this be found impossible of accomplishment, we wish it to be understood that we do not in any event desire to make a profit out of any less satisfactory arrangement. In no circumstances do we propose to ask more from our debtors than is necessary to pay to our creditors. And, while we do not ask for more, all will admit that we can hardly be content with less. For it should not be forgotten, though it sometimes is, that our liabilities were incurred for others, not for ourselves. The food, the raw material, the munitions required by the immense naval and military efforts of Great Britain and half the £2,000,000,000 advanced to allies were provided, not by means of foreign loans, but by internal borrowing and war taxation. Unfortunately, a similar policy was beyond the power of other European nations. Appeal was therefore made to the Government of the United

States; and under the arrangement then arrived at the United States insisted, in substance if not in form, that, though our Allies were to spend the money, it was only on our security that they were prepared to lend it. This co-operative effort was of infinite value to the common cause, but it cannot be said that the rôle assigned in it to this country was one of special privilege or advantage.⁷⁷

Attention must be drawn to the passage in the Balfour note where the Minister records that the sums lent by the United States to the British Government were made over by the latter to the other Allies. This is perfectly correct. On the 22nd April 1918, the Chancellor of the Exchequer, Mr. Bonar Law, stated in the House of Commons: "In spite of the assistance of the United States our advances to the Allies last year amounted to £505,000,000 sterling [12,375 millions of francs] . . . Our advances to the Allies were in the year approximately of the same amount as the advances made to us by the Government of the United States. This is satisfactory. It means that it is only necessary for us to lean on the United States to the extent that the other Allies lean upon us. . . .

"But there is something anomalous in this arrangement. It is almost, in a sense, absurd that we should be borrowing with one hand while we are lending with the other. The result of that is that our accounts are inflated apparently—that in fact to that extent our credit is weakened. I have, therefore, been in communication with Mr. McAdoo, the Secretary of the Treasury of the United States, on this subject, and Mr. Crosby, the head of the Financial Mission of the United States to Europe, is on the point of returning to Washington to consult his Government, and I am making to him certain suggestions as regards advances to the Allies, which, if adopted, will have the effect of lessening to a certain extent our burdens, while in no way increasing the total obligations of the United States. From the way in which not only the United States Government, but Mr. McAdoo himself, has shown every desire to coöperate both with us and the other Allied Governments, I am sure that he will give these suggestions most sympathetic consideration."

The result was that in 1918 the advances of Great Britain to the

⁷⁷ This portion of the note gave rise to protests on the part of the United States. To these Lord Balfour replied on the 8th March 1923, maintaining his opinion (House of Lords, 8th March 1923, "The Times" of 9th March 1923, pp. 7 and 12).

Allies were very small, as the United States granted loans *directly* to France, Italy, etc.

IV

The position taken up by Great Britain was very generally looked upon in France as unfriendly. The great Parisian press, which gives the lead to most of the French newspapers, represented it as a British menace. As for the French Government, the President of the Council, M. Poincaré, replied to the Balfour note in stiff terms, subordinating the repayment of the loans to the payment of reparations by Germany. He contrasted the attitude in the War of the British and American Governments; and finally he reserved the right of revising the British claim. "When the time comes," he said, "for the French Government to examine closely the British claim, certain preliminary considerations will have to be taken into account. . . . It cannot be forgotten that the United States entered the War without their existence being directly menaced and in order to defend, with their men, the principles that lie at the root of civilization; whereas Great Britain, like France, had moreover to safeguard, not only her independence and her territory, but also the life, the property, and the means of existence of her nationals. Further, the amount of the British claim—which, indeed, has not yet been fixed as a matter of accounts—should equitably be subject to revision. Thus, for instance, in transfers between the Allies of supplies and material, the British administration has been in the habit of crediting itself for all deliveries at the *full price*, increasing this to allow for departmental expenses, that is to say for general costs and the export dues encashed by the British Treasury, whereas the French administration reckoned its transfers to the British Army at the lower tariff paid in respect of transfers from one French service to another, without taking into account either general expenses or taxes. Accordingly, when the position of the payments made for the reparation of the devastated areas of France permits a settlement of inter-allied debts, this settlement will have to be preceded by a minute examination, so as to reduce the amount of the debts to figures that are equitable and are calculated on identical bases."

At the end of 1922 it seemed as if a step had been taken in the direction of the cancellation of inter-allied debts. The new British Government, presided over by Mr. Bonar Law, while adhering to

the principal lines of the Balfour note, appeared to be disposed to cancel the British claim *in part*, whatever might be the attitude of the United States towards Great Britain.

The failure of the Paris Conference in January 1923 reopened the whole question. The advent of the Labor Party to power in England in 1924 did not alter the situation. Nor did the report of the experts in April 1924, regarding the conditions under which Germany should pay reparations, facilitate the settlement of the inter-allied debts. It is now admitted in France that if Great Britain is to pay the United States, it is legitimate that she should require the reimbursement of the sums she herself lent during the War.⁷⁸

V

The French Government has recognized the principle of repayment, and negotiations are proceeding as to the amount to be paid and the method of payment. The agreement between Belgium and America, of August 1925, by which Belgium recognizes her debt and undertakes to pay it, left no room for illusion as to the determination of the United States to exact reimbursement. Negotiations took place, in August and September 1925, in London and Washington. It was found possible to arrive at a *conditional* agreement between France and Great Britain; but no understanding was arrived at with the United States. It is therefore impossible to determine the charge that France will have to support in respect of the British and American loans.

Nevertheless, the economists who have studied the question declare themselves in favor of the cancellation of the inter-allied debts. We may leave aside the French⁷⁹ or Italian economists; they may be suspected of bias, precisely on account of their nationality. In England, as early as the 26th April 1919, the *Economist* proposed that the British Government should abandon its claim against the allies to whom it had made advances.⁸⁰ The same view was main-

⁷⁸ See *Le Temps*, 28th April 1924, "Bulletin du jour": "It is manifestly unjust that England should pay the United States without herself being paid. We think that all the debts should be paid."

⁷⁹ On this question see Gaston Jèze, *La répartition équitable entre les alliés des charges financières de la guerre* in the *Revue de science et de législation financières*, 1919, pp. 614 *et s.*, with the authorities quoted.

⁸⁰ P. 689.

tained, in December 1919, by Professor J. M. Keynes, in his famous book on the *Economic Consequences of the Peace*.⁸¹ "The first [proposal]," he wrote, "is for the entire cancellation of Inter-Ally indebtedness (that is to say, indebtedness between the Governments of the Allied and Associated countries) incurred for the purposes of the War. This proposal . . . is one which I believe to be absolutely essential to the future prosperity of the world. It would be an act of far-seeing statesmanship for the United Kingdom and the United States, the two Powers chiefly concerned, to adopt it. . . . I believe this to be an act of generosity for which Europe can fairly ask, provided Europe is making an honorable attempt in other directions, not to continue war, economic or otherwise, but to achieve the economic reconstitution of the whole Continent." Prof. Keynes advanced a series of arguments, based on morality, on justice, and on policy.

Two years later, in December 1921, Professor Keynes published a further book *A Revision of the Treaty*: "The now familiar project," he said therein,⁸² "of the cancellation in part or in their entirety, of the . . . Inter-Allied Debts, is a large and unavoidable feature in them. But those who are not prepared for these measures must not pretend to a serious interest in the Reconstruction of Europe." He added: "since time presses, we cannot rely on American assistance, and we must do without it if necessary. If America does not feel ready to participate in a Conference of Revision and Reconstruction, Great Britain should be prepared to do her part in the cancellation of paper claims, irrespective of similar action by the United States."

Other English economists have written in the same sense.⁸³

In the United States, the cancellation of the inter-allied debts has been vigorously advocated by Professor Seligman in an interesting communication to the 34th annual meeting of the American Economic Association held at Pittsburg on the 28th December 1921.⁸⁴

⁸¹ Pp. 253 *et s.*

⁸² Pp. 171 and 184.

⁸³ Trauton, quoted by Seligman, "The State of our National Finances" in the *American Economic Review*, March 1922, p. 27.

⁸⁴ The *American Economic Review*, March 1922, pp. 21 *et s.* See also, pp. 41 *et s.*, the discussion that arose on Prof. Seligman's communication. Mr. John E. Rovensky completely approved Prof. Seligman's view: "Professor

Seligman states that 'undoubtedly still a majority in this country' consider the debt of our Allies to this country a just debt. This may be true, but if so, I am glad to place myself beside Professor Seligman in the minority that does *not* believe so. To say that the Allied debt to us is a just debt is to ignore colossal facts of human history and take our stand on the basis of mere book-keeping figures.

"When France, bled white by her efforts prior to our entry into the War, sent forward a regiment of her men to fight for our common cause and we furnished a part of their equipment, we booked the price of the equipment as a loan. But when we sent forward a regiment of our own men—thus furnishing not only the relatively unimportant equipment but also the precious human element—we booked that as an expenditure. How absurd—if any relation of debtor and creditor was created between France and ourselves in the two foregoing examples it is the reverse of the technical bookkeeping results.

"Czecho-Slovak soldiers, drafted against their will into the Austrian army, rebelled and went over to the Allied side; when Russia failed the Allies they fought their way through thousands of miles of bolshevik chaos and finally at the earnest request of the Allies (including the U.S.A.) maintained an Allied front in frozen Siberia—half way round the globe from their homes, in a desolate country in which they had no interest save as our Allies. And when they needed food and clothing to perform the task to which we and our Allies assigned them we 'loaned' the required amount to their government—a government that possessed at that time absolutely no revenues. Is that a debt in the usual sense of the word?

"Professor Seligman states that there is 'great need of clear thinking and of public enlightenment on this subject.' I am certain that the American people, if the facts are placed clearly before them, will after due consideration arrive at the same conclusion as Professor Seligman—that these debts are not the kind that give us the right to rigidly demand payment but that they are merely bookkeeping results that ought to be reviewed in the light of the vastly more important human facts."

Mr. A. W. Krech, banker (Equitable Trust Company of New York), maintained on the contrary that the debt was a just one. In his opinion it would be wise to decide that for ten years it should not be mentioned. At the end of ten years the question of cancellation would be examined. This would not be a disguised moratorium. In ten years' time the economic conditions of the United States and of the debtor countries would have changed and would allow the problem to be considered impartially.

Mr. J. T. Holdsworth, banker (the Bank of Pittsburg), made certain reservations as regards Prof. Seligman's conclusions, but was of opinion that, for economic reasons, a prompt payment of interest and capital should not be insisted on. A generous and elastic scheme of amortization should be worked out. After a decade of economy, the Allies would be in a position to begin paying interest and reimbursing the capital of their debt. Their future credit itself would benefit by this.

In the New York *Times* of the 5th November 1922, after a speech by Secretary Hoover on the 16th October 1922 setting forth the view of the Government, Professor Seligman again developed

Prof. E. L. Bogart, on the other hand, declared himself a firm supporter of Prof. Seligman's view, laying particular stress on the economic arguments.

"The second problem," he said, "of immediate importance is that of the Allied indebtedness. Perhaps in no part of the entire subject is there more need of clear thinking and of public enlightenment. This is true on both the ethical and economical phases of the subject. I have little patience with those—undoubtedly still a majority in this country—who consider it a just debt. For, after all, what is the real situation? . . .

"If the War was a joint enterprise, carried on for a common purpose, there is as little reason to separate the financial contribution as the human contribution. . . .

"The Allied debt is not a just debt, if we interpret justice in the only legitimate sense of the term. We advanced the money, indeed, in the form of loan, and legally our position is impregnable. What we actually did, however, was to defray our share of a common burden which, if it were to be adjusted on a truly equitable basis, would make us not the creditor but the debtor of the Allied group. To insist now on our pound of flesh is to take the part of a Shylock, not of a highminded partner in a joint and common enterprise. The Allied debt is not a just debt; and the sooner that this is realized by our people, wearied by the bickerings of the European nations and still confused by the acerbities of the recent presidential campaign, the better for all concerned. . . .

"Even, however, if the Allied debt were a just debt, the economic consequences of insisting upon the payment would be disastrous, not alone to our Allies, but more especially to us. . . .

"It may indeed not be the part of wisdom to cancel the remaining indebtedness. It may be more statesmanlike to let the debts remain on the books, and in due time to affix certain conditions to their remission. It may even be desirable to ask our debtors to consent to a certain *quid pro quo* of a political, an economic, or a cultural nature. It would not be difficult to make a catalogue of such possible compensations: free scholarships for American students abroad, free scholarships for foreign students here, a revision of the terms of reparation, a political readjustment in the interests of international amity and good-feeling. But whether we attach conditions to a remission of the debt or simply cancel it outright, let us not commit the folly of cutting off our nose to spite our face. Let us frankly recognize the fact that to insist upon the immediate or even the speedy payment of the debt will constitute an economic blunder of the first magnitude, the unfortunate results of which will be felt in every town and hamlet, in every business and occupation, in every class and rank of our people. Even if the American people prove obdurate to the ethical implications of the problem, let them not blind their eyes to the economic aspect."

with great force the decisive arguments of a moral, economic, and political nature in favor of cancellation.⁸⁵

Thus in the United States, there are two conflicting views; but, as Professor Seligman indicates, there are also intermediate views, notably that which subordinates the abandonment of the American claim to certain measures considered necessary for the restoration of the peace of the world: general disarmament, reduction of the German debt, etc.⁸⁶ It will be sufficient to set out in a few lines the decisive reasons adduced in favor of cancellation.

(1) It is a question of *justice*, says Prof. Seligman.⁸⁷ During the first part of the War, down to 1917, the United States derived enormous wealth from the War, to such a point that from being the principal debtor nation of the world they became its principal creditor and the economic arbiter of the universe. While Europe was ruining itself, riches were pouring into America. The sums lent by the Government to the Allies were expended in America and contributed to enrich American citizens. Were not these loans America's share in the common war? If a just distribution of burdens were made among the Allies, would not the United States be the debtors of Europe rather than its creditors? The United States, Prof. Seligman says,⁸⁸ emerged from the War with hands clean, but hands full. They are the only nation in the world that the War has enriched. Would it not be adding insult to injury to ask those who have suffered most for the common cause to suffer further for the fresh enrichment of the United States?

(2) Whatever public opinion in the United States, he adds, may

⁸⁵ This has been published as a separate pamphlet, under the title "The Allied Debts, constructive criticism of Secretary Hoover's views," New York, 1922, 18 pages; it will now be found as Chapter 2 in his recent *Studies in Public Finance*, 1925.

⁸⁶ It has numerous partisans in the United States. See the *Manchester Guardian Commercial* of the 16th November 1922 ("The United States and Europe"), and particularly the notable articles by Mr. R. C. Leffingwell (formerly Assistant Secretary to the United States Treasury), by Mr. Fred L. Kent (Vice-President of the Banker's Trust), etc. See also in Harold Moulton's book on *The French Debt Problem*, New York, 1925.

⁸⁷ The development of Prof. Seligman's argument on this point should be read in his essay "The Allied Debts," New York, 1922, pp. 4-9. Cf. *Studies in Public Finance*, 1925, pp. 45-50.

⁸⁸ For the original passage see *Studies in Public Finance*, p. 47.

hold as regards the reimbursement of the advances, it is evident that the present insolvency of France puts it out of her power to pay for a long time to come anything at all, principal or interest. On the assumption most favorable to the partisans of reimbursement, the reimbursement would have to be spread over a large number of years. But in that event a decisive obstacle arises. Lapse of time will inevitably produce a double effect in the United States and in France. In the former, as the economic and financial situation rapidly improves, the desire to recover will weaken. Conversely, in France, as time passes, the tribute payable to the United States will become daily more intolerable, for it will come as an aggravation of a crushing burden. The injustice of this tribute will appear more glaring to generations that did not wage the War. This double sentiment acting from opposite directions will inevitably lead to cancellation, for it will be understood that international peace and good relations between the two peoples are incompatible with the sense of this injustice. It is better, therefore, to cancel at once.

(3) For France to pay, it is further argued, she would have to increase her exports to the world and decrease her imports. Both processes will react on the United States. If her exports are developed, French goods will come into competition with American goods either on the American or on foreign markets. For French exports to develop, the price of French goods would naturally have to be lower than that of American goods; that is to say that French workmen would have to produce more for lower wages, or that the French Government would have to give direct or indirect bounties on export. But in that event the American Government would certainly declare that there was dumping and take steps accordingly. The fundamental incompatibility between the two policies thus comes to light: on the one hand, the desire of the United States to push France to develop her exports so that she may repay the advances; on the other, the desire of the United States to protect her manufactures against French competition.

Finally it is evident that if France reduced her consumption and her purchases in order to pay the United States, the latter would lose their French market. In short, every policy of repayment would inevitably result in a severe blow to American overseas trade. American manufacturers and workmen affected by this blow would not fail to exercise pressure on the public authorities. The Government would

be obliged to yield to public opinion and would end by seeing that the remedy lies in the cancellation of the debts, but only after much harm had been done.

To my mind, there is a way of conciliating all these various views, or at least of avoiding the embitterment of international relations. France would recognize her debt and settle its *quantum* and mode of payment by friendly negotiations; the United States and Great Britain, for their part, would take into account France's capacity of payment, in view of her exhaustion by a long war and her financial prostration as a result of the havoc wrought by Germany. For this purpose the creditors would abandon part of their claim (this is what England proposes) and *above all* would consent to accept payment in French currency and not in British or American currency. In this way, the reimbursement of the loans would not react on French national economy by upsetting the exchange and unsettling the currency. It may be urged in favor of this solution that when the loans were granted by the United States and Great Britain, they were made in American and English currencies without disturbing the American or English exchange. Moreover this solution was adopted by the Dawes scheme, in 1924, in favor of Germany as regards the payment of reparations. Why should not that be indispensable for France which the American and British experts considered indispensable for Germany?

VI

The outcome of this discussion is that, in the enumeration of the items of French public war expenditure, the tens of billions of francs claimed by the American and British Governments in respect of the loans made for the purpose of the War constitute a less and less doubtful item. On the other hand, for the very reasons that have been set out above, the recovery of the advances made by France to her allies, amounting to more than 15 billions of francs, must be treated as extremely uncertain.

All this greatly affects the total of the public war expenditure of France.

SECTION XI

THE PAYMENT OF REPARATIONS BY GERMANY TO BE CONSIDERED. RESTORATION OF THE DEVASTATED AREAS, INDEMNITIES TO SUFFERERS, PENSIONS, AND MILITARY ALLOWANCES

It is impossible, in calculating the cost of the War to France, not to take into account the amount of the expenditure for which the Treaty of Versailles has made Germany responsible, namely (1) the cost of restoring the devastated areas, (2) the indemnities to sufferers by the War, (3) pensions and allowances.

I

We will first dwell on the cost of restoring the areas of France laid waste by the enemy and by the allied troops. Two questions arise:

- (1) Can its amount be determined?
- (2) Is this amount in excess of the sums that Germany will in fact pay?

A considerable proportion of the French territory was, for four and a half years, the theater of hostilities. Certain areas have been transformed into lunar landscapes by the millions of shells hurled by the belligerent troops. If we may believe the official documents⁸⁹ the devastated area extended to 3,731,000 square kilometers, or 7 per cent of the whole territory of France. This area was inhabited by 4,750,000 persons, or 12 per cent of the total population. Its agricultural yield represented 10 per cent of the total production of France; its output of linen and clothing, 30 per cent; its output of thread, linen, and hemp fabrics, 50 per cent; its output of steel, 60 per cent; its output of cotton, 70 per cent; its output of coal and

⁸⁹ Report of M. Bokanowski on the Budget Bill for 1923, *Chambre 1922*, No. 4820. See also Edmond Michel, *La reconstitution des Régions Libérées et les Dommages de Guerre (Communications faites à la Société d'Economie politique dans le Journal des Economistes, 1920 et suivantes)*; William MacDonald, *Reconstruction in France*, New York, 1922, Maemillan; lecture by M. Reibel, Minister of the Liberated Arcas, to the *Comité d'Etudes sociales et politiques*, 17th March 1924, analyzed in *Le Temps* of 19th March 1924, p. 2.

ore, 74 per cent; its output of cast metals, 81 per cent; its output of iron, 92 per cent.

From the agricultural point of view, the yield of wheat, for instance, for the year 1913 had been, for the whole of France, 87 million quintals⁹⁰ (a figure below the average); of these 87 millions, nearly 18 millions, or about one-fifth had been produced by the ten invaded departments.

These areas were laid waste by the enemy. The losses, in respect both of capital value and of revenue, were consequently heavy. Here are, in this connection, a few summary data taken from French official documents.

Take the agricultural output. The area that had produced 18 million quintals of wheat in 1913, yielded in 1918, in consequence of the devastation, little more than 6 million quintals; thus the loss of output from this cause amounted to 11½ million quintals for this year alone.

As regards coal, the coal-fields of the Nord and the Pas-de-Calais had produced, in 1913, 37.4 million tons; in 1918 they produced only 7.9 millions, and in 1920 9.7 million tons.⁹¹

Let us next consider public buildings (town-halls, schools, churches, etc.). At the time of the armistice, 6575 buildings had been destroyed, 4391 seriously damaged, 6650 partially damaged.

As regards private houses and dwellings, 222,132 had been destroyed, 128,196 seriously damaged, 214,011 partially damaged.

Of land under cultivation, 5,248,964 acres of arable, 1,053,872 acres of pasture, 1,472,307 acres of woods and forests, 276,126 acres carrying buildings, required to be restored.⁹²

⁹⁰ A quintal = 220 lb.

⁹¹ According to M. Bokanowski's general report on the draft budget for 1923, No. 4820 of 1922, pp. 12 and 13.

⁹² In his lecture of the 17th March 1924, above quoted, M. Reibel said: "The immense battle-field, on which for more than four years the armies had met in conflict, comprised 8,151,000 acres that were devastated and overturned, of which nearly 5,000,000 acres were plow-land. The number of houses and agricultural buildings destroyed exceeded 740,000; the factories demolished numbered nearly 23,000. In the presence of ruin and death, life had gradually withdrawn or slackened; these vast regions, of which several were among the most thickly populated in France, and which, before the War, had more than 4½ million inhabitants, now had scarcely 2 millions."

As regards live stock, in the regions occupied by the enemy, the latter had carried off or requisitioned 834,933 oxen and cows, 376,393 horses, donkeys, and mules, 890,794 sheep, rams, and goats, and 331,656 pigs.

These figures will suffice to give some idea of the extent of the devastation.

II

In these circumstances, the Law of the 17th April 1919 imposed on the French State the duty of *entirely* making good the damages of war. Article I laid down the following principle: "The Republic proclaims the equality and solidarity of all Frenchmen in respect of the charges of the War." Consequently, in virtue of Article II of the law, "definite, material and direct damage caused, in France and in Algeria, to real or personal property by acts of war, entitles to *entire* reparation."

This law marks an important innovation. Down to 1914, jurisprudence, practice, and doctrine agreed in the opinion that victims of acts of war had no claim to indemnity. The Parliament made grants to them solely as an act of grace, as the budgetary resources permitted. From the early months of the War of 1914 the legislator, abandoning the position that the public authority was irresponsible, laid down the principle of its responsibility⁹³ (Law of the 26th December 1914), but in vague terms. The laws of the 17th April 1919 defined and developed the principle.⁹⁴ The expenditure entailed on the French State by its application certainly constitutes war expenditure.

III

Is it possible to estimate approximately the total of the expenditure under this head? Very serious controversies have arisen in this

⁹³ As regards the political, social, and juridical reasons which brought about this new attitude, see Gaston Jèze, *La Réparation Intégrale des Dommages causés par les Faits de Guerre*, in the *Revue du Droit public*, 1915, pp. 5 *et s.*

⁹⁴ Louis Rolland, *La Loi du 17 avril 1919 sur la Réparation des Dommages causés par les Faits de la Guerre*, in the *Revue du Droit public*, 1919, pp. 367 *et s.*

connection. One thing, to begin with, is certain: the French Government has been obliged to borrow, by tens of billions of francs, for the purpose of setting the devastated territory in order. To draw up a complete statement of the sums expended by France, we must wait until the restoration is completed, which will no doubt take some years.

At the present day, it is very difficult to estimate the cost of restoring the devastated areas. The estimates made hitherto are open to much suspicion; they are not objective, which explains the wide and disconcerting differences between them. So far, little has been produced but tendentious figures, calculated to support some political argument. Some have wished to reduce as much as possible the probable total of the expenditure; others have magnified it immoderately. Let us try to discover the truth.

We should first note, in appreciating the figures that have been put forward, that a preliminary correction is called for. The expenditure has invariably been estimated in paper francs. It follows that the total cost of the restoration necessarily varies, with the fluctuations of the paper franc, according to the date at which these estimates have been prepared. As a consequence, certain estimates which, at first sight, appear very different, are in reality approximately the same, by reason of the fluctuations of the paper franc. It has also happened that estimates, which were certainly very exaggerated when they were made, have become moderate as a consequence of the depreciation of the franc.

Let us now review the principal estimates that have been prepared.

In his impressive books, Professor J. Maynard Keynes has put forward figures that aroused downright indignation in France. In his famous work of 1919, *The Economic Consequences of the Peace*, Mr. Keynes stated (pp. 115 *et s.*) that "France, in my judgment, in spite of her policy at the Peace Conference, a policy largely traceable to her sufferings, has the greatest claims on our generosity." But he proposed a maximum figure of £500,000,000 gold, that is 12 billions 500 million francs gold, for the *physical and material damage* wrought in the occupied areas, and £300,000,000 gold, or 7500 million francs gold, in respect of the war contributions, marine losses, etc. In all 20 billions of francs gold. The author observed that M. Pupin, a French statistician, had estimated

the *material* losses of the devastated areas at between 10 and 15 billions of francs gold,⁹⁵ that is to say at a figure very near to his.

In his second book, which appeared in 1922, *A Revision of the Treaty*, Professor Keynes recognizes that in 1919 accurate statistics of the damage done were not at his disposal.⁹⁶ He wished merely to "fix a maximum limit to a reasonable claim, having regard to the pre-war wealth of the invaded districts." In 1922, after a thorough study afresh of the statistical data, Prof. Keynes states⁹⁷ that the amount of the damage really suffered by France (damage to property and to civilian victims of the War) is certainly less than he had indicated in 1919, in other words less than 20 billions of francs gold. In fact when he comes to the revision of the Treaty of Versailles, he fixes the amount of the *material damage* suffered by France at 16 billions of francs gold.⁹⁸

This estimate is much lower than that made by the official French representatives, M. Louis Dubois, M. Loucheur, M. Klotz, and M. Doumer. At the beginning of 1919, when the paper franc was very near the gold franc (1 dollar = 5 fr. 60), M. Louis Dubois, in a report presented on behalf of the Budget Commission of the Chamber of Deputies,⁹⁹ gave the figure of 65 billions of paper francs as a minimum, exclusive of the war contributions, the marine losses, damage to roads and public buildings, and personal damage.

About the same period, the 13th February 1919, the paper franc being still very near par (1 dollar = 5 fr. 45), M. Loucheur, Minister of Industrial Restoration, estimated, in the Senate,¹⁰⁰ the cost of *restoration* at 75 billions of paper francs, excluding war contributions and personal damage. Between these two figures we already find a difference of 10 billions of francs, which is not attributable to fluctuations in the value of the paper franc.

On the 5th September 1919, when the paper franc had already depreciated a good deal (1 dollar = 8 fr. 37), M. Klotz, Minister of

⁹⁵ René Pupin, in the *Revue Bleue*, 3rd February 1919.

⁹⁶ P. 105.

⁹⁷ See the discussion, *op. cit.*, pp. 105-128.

⁹⁸ *Op. cit.*, pp. 173 and 174. [What Mr. Keynes says is 16 billions of gold marks. Translator's note.]

⁹⁹ *Chambre*, No. 6669 of February 1919; *J. O., Chambre, Documents*, pp. 430 and 431.

¹⁰⁰ *J. O., Sénat, Débats*, p. 125.

Finance, estimated in the Chamber of Deputies¹⁰¹ the loss in property (excluding pensions and allowanees) at 134 billions of paper francs. Here again, even after making the necessary correction for the fall of the franc, the figures continue to grow.

In July 1920, M. Louis Dubois, who had become President of the Reparation Commission, estimated the damage to property at 62 billions *at pre-war prices*.¹⁰² This figure is far higher than that submitted at the beginning of 1919; it is evident that 62 billions of francs *at pre-war prices* amount to much more than 65 billions of paper francs at the prices of 1919.

In February 1921, the French Government, in a memorandum submitted to the Reparation Commission with a view to determining the amount to be laid to Germany's charge under the head of reparations, claimed 136 billions of paper francs (replacement value) as follows:

	<i>Millions of francs paper</i>
Industrial damage	38,883
Damage to buildings	36,892
Damage to movable property	25,119
Damage to real property other than buildings	21,672
Damage to State property	1,858
Damage to public works	2,583
Other damage	2,360
Marine losses	5,010
Damage in Algeria, in the Colonies and abroad	2,105
	<hr/> 136,482
The French Government added:	
Interest at 5 per cent* since the armistice	4,125
	<hr/>
that is to say, for damage to property alone, a total of millions of francs paper.	139,697

* Cf. *Évaluation des dommages subis par la France*, du 6ème fascicule, p. 67, Imprimerie Nationale, 12th February 1921.

As the value of the franc in February 1921 had fallen a great deal (to 1 dollar = 14 francs) as compared with September 1919 (1 dollar = 8 fr. 37), and also as compared with the time when the

¹⁰¹ *J. O., Chambre, Débats*, pp. 5, 188 *et s.*

¹⁰² Financial Report for the Brussels and Spa Conferences.

French claim was *prepared*, it will be seen that the French figures of 1921 (136 billions) were, in reality if not in the intention of those who submitted them, far lower than those put forward by M. Klotz in September 1919 (134 billions).

In July 1921, when the value of the franc had risen again (1 dollar = 12 fr. 08), the Minister of Finance, M. Doumer, estimated the damage to property at 110 billions of francs paper.¹⁰³

IV

The mere comparison of these successive estimates arouses some misgivings as to the value to be attributed to French official figures. It is by no means certain that the estimates were modified in accordance with the fluctuations in the franc. The doubt arises in one's mind whether, when they were first drawn up, at a time when the franc was not very greatly depreciated, when a recovery of the national currency was counted upon, the French claims were not overstated with a view to bargaining, as is the custom with pleaders when they claim damages in a law court.

As regards the value to be attached to the estimates presented in February 1921 by the French Government to the Reparation Commission, let us recall these in their precise form:

	<i>Replacement value (in paper francs)</i>
I. Damage to property.	
A. Industrial damage	38,382,521,479
B. Damage to buildings	36,392,500,000
C. Damage to movable property	25,119,500,000
D. Damage to real property other than buildings	21,671,546,225
E. Damage to State property	1,958,217,193
F. Damage to public works	2,583,299,425
G. Other damage	2,359,865,000
Marine damage	5,009,618,722
Algeria, Colonies, and abroad	2,094,825,000
Interest at 5 per cent* on the capital (about 33 billions) from the 11th November 1918 to 1st May 1921, say 30 months	4,125,000,000
	<hr/>
	139,696,893,044

* See footnote, p. 78.

¹⁰³ *Projet de budget général pour 1922, exposé des motifs, Chambre, No. 3068; projet de budget (dépenses recouvrables) pour 1922, Chambre, No. 3069, p. 2310.*

II. Damage to persons.

A. Military pensions and allowances of similar character (§5, Annex I of Treaty of Versailles)	60,045,690,000
B. Allowances to families of mobilized men (§7, Annex I)	12,936,956,824
(a) Pensions to civilian victims of the war and their heirs (§1 Annex I)	514,465,000
(b) Ill-treatment of civilians and prisoners of war (§§2, 3, and 4)	1,869,230,000
(c) Relief to prisoners of war and their families (§6)	976,906,000
(d) Inadequacy of wages (§8)	223,123,313
(e) German exactions from the civilian populations (§10)	1,267,615,939
	<hr/>
	77,833,987,076
	<hr/>
Grand total	217,530,880,120

Have these figures any serious basis? Or have they the same value as those put forward in 1919 by M. Dubois, M. Loucheur, and M. Klotz; in 1920 by M. Dubois; and in 1921 by M. Doumer? How could the French Government, which at the end of 1922 officially stated in the Chambers that it was ignorant, not only of the State's expenditure during the War, but even of the Treasury's disbursements,—how could it know in February 1921, within one franc, the amount of damage suffered under each of these categories? This will be known only when the commissions engaged in estimating the damage have completed their work. It was expected that the Commission would substantially reduce the claims. Were not figures submitted which, after having been reduced, would approximate to the facts?

To reply to these questions, one would have to know how the Government's estimates were prepared. The most exaggerated official statements will easily carry conviction with certain Frenchmen, where it is a question of obtaining reparations from Germany. But, to convince impartial minds, proofs are needed, and none have been put forward. The considerations which have been set forth above lead one to fear that the state of the public accounts in France made it impossible in 1921 to determine even approximately, not only the damages suffered, but even the expenditure incurred up to date on account of reparations.

V

This fear is accentuated by the explanatory statement attached to the budget bill for 1923. In this document¹⁰⁴ the Minister of Finance, M. de Lasteyrie, wrote as follows: "More than three years have passed since the armistice; France has as yet received nothing from Germany in respect of reparations; the various payments in kind that have been made barely cover the expense of our armies of occupation. Meanwhile, we could neither defer the payment of the sacred debt that the nation had contracted to the prisoners of war, nor leave our devastated areas in the state of indescribable chaos in which the German retreat had left them. By an extraordinary and unparalleled paradox, a victorious but disabled France has had to constitute herself the banker of her aggressor, whose productive power remained unimpaired. The advances granted in these circumstances by the French budget reach today a total of 80 billions. This sum has been procured by means of loans which, capitalized at the moderate rate of 5 per cent, represent an annual charge of about 4 billions."

Here we have, interjected in the debate on reparations, the exact figure of 80 billions of francs. Henceforth it plays an important part. It is the basic figure on which the French Government constantly relies from 1921 onwards.

In the Senate, on the 21st December 1922,¹⁰⁵ the President of the Council, M. Poincaré, took it up again and supplemented it: "on the 31st December [1922]," he said, "we had advanced, on Germany's account, for reparations and pensions about 100 billions. If I specify the sum afresh, it is because on the morrow of the statements that I made on this point in the Chamber and of information I furnished, semi-official—I had almost said official—German notes appeared contradicting the figures that I had announced. Those figures are not however open to question. On the 31st December [1922] we had advanced, in respect of the total that Germany should have supplied to us, about 100 billions, and in respect of reparations alone about 45 to 48 billions. And our advances continue day by day; and the best of our budgetary resources and the whole of our financial means are swallowed up in this gulf."

¹⁰⁴ *Chambre des Députés, 1922, No. 4220, I, p. 115.*

¹⁰⁵ *J. O., Débats, p. 1516.*

M. Poincaré evidently had these figures from the Ministry of Finance. How then did M. Lasteyrie, the Minister of Finance, arrive at the figure of 80 billions? He explained it in the report which he made as *Rapporteur* of the Finance Committee, on the Budget of Recoverable Expenditure, a report dated the 10th December 1921:¹⁰⁶ "On the 1st January 1922," he wrote, "the sums that the French Treasury will have disbursed on account of Germany will amount to a total which, without exaggeration, may be put approximately at 80 billions of francs, composed as follows:

Reparation of damage to property	45 billions
Reparation of damage to persons	29 billions
Interest on sums borrowed in respect of recoverable expenditure	6 billions
	<hr/>
In all	80 billions

"For the year 1922, the expenditure on account of reparations, that is to say recoverable expenditure as it is called, will amount to 15 billions. This figure may even be raised to 19 billions, if the associations of sufferers by the War succeed in obtaining the loans which they have been authorized by the finance laws to raise."

This is all that the report of M. Lasteyrie contains in substantiation of the sum of 80 billions of francs, of which the reparation of damage to property accounts for 45 billions of francs.

M. Lasteyrie, who became Minister of Finance a few days after drawing up his report, merely repeated the figure of 80 billions in his draft budget for 1923; and this time he did not think himself called upon to justify or analyze it. He treated it as an accepted figure. Hence it passed into current discussion as something unquestioned and unquestionable.

Now, on the one hand, the 80 billions to which the Minister refers comprise all the sums paid by France since 1914 that come under the categories enumerated in the Treaty of Versailles. On the other hand, the Minister stated in 1922 that he was unable to say exactly what payments had been made by the Treasury since 1916.¹⁰⁷ Finally, we observe that M. de Lasteyrie's figures do not agree with those contained in the general report submitted by M. Chéron on

¹⁰⁶ *Chambre*, No. 3537, pp. 3 and 4.

¹⁰⁷ See above, pp. 25 *et s.*

behalf of the Finance Committee of the Senate on the 16th December 1921,¹⁰⁸ that is to say at the very time when M. de Lasteyrie was writing his own report. M. Chéron asserted, in contradiction of the statements of M. de Lasteyrie, that the advances made by the Treasury on account of Germany (restoration of the devastated areas and liquidation of pensions) amounted on the 31st December 1921, "even including interest" to about 69 billions [and not 80 billions]. "This figure," M. Chéron specified, "refers to the total of the sums advanced since the outbreak of war, under the head of recoverable expenditure, including allowances." "Since the 1st January 1919, advances and interest represent only 51,700 millions."

We might multiply such comparisons. The conclusion from them is that the data officially supplied have no scientific value.

VI

It is therefore as a general indication that we quote the official estimate of the expenditure *remaining to be incurred* on the restoration of the devastated areas. On the 13th May 1921, the Minister of the Liberated Areas estimated that a period of 8 years from 1922, and an expenditure of 9 billions a year, would be required to complete the work of restoration. This would represent an expenditure of 72 billions.¹⁰⁹

Further, as regards pensions, the official documents stated that the payment of the pensions would continue until 1990, that is to say, during 68 years. It would no doubt go on decreasing; but for the first eight years, the total charge of the service was put at 28 billions.¹¹⁰

With greater precision, M. Chéron, Senator, *Rapporteur Général* on the budget for 1922, stated in December 1921: "The pensions, which represented in 1921 annuities of 3 billions 790 millions of francs, will still be in the neighbourhood of 3 billions in 1930. They will fall below 3 billions only in 1937; below 1 billion only in 1966; below 500 millions only in 1977. They will disappear com-

¹⁰⁸ *Sénat*, No. 796, I, p. 7.

¹⁰⁹ Report presented by M. Chéron on behalf of the Finance Committee of the Senate, concerning the Budget of Recoverable Expenditure; Senate, 19th May 1921, No. 359, J. O., *Sénat*, Documents, pp. 638 et s.

¹¹⁰ Report on the budget for the year 1922, by M. Henry Chéron, 16th December 1921, *Sénat*, No. 796, pp. 8 and 9.

pletely, according to the actuaries' calculations, only in 1990. The pensions represent, from the year 1921 inclusive to their extinction, a total of 101½ billions. It is only by a theoretical calculation that they are reduced to a present capital value of 47½ billions, seeing that we do not receive this capital."¹¹¹

Let us compare these figures with those contained in the *Inventaire* published in December 1924 by the Minister of Finance.¹¹² "The estimates hitherto prepared placed the total cost of making good damage to property at about 85 billions of francs. The progress of the work of the local commissioners (which is practically complete) provides us today with more accurate data which, without allowing us to fix a final figure, indicate some exaggeration in the sum previously accepted and limit the total to about 81 or 82 billions, or about 4 billions less than the first estimates.

"On the other hand the various expenditure incurred, down to the end of 1924, to make good *damage to persons*—military allowances, pensions and various payments on account of the disabled, prisoners of war, civilian sufferers, and wards of the nation—had reached 36 billions of francs. The present value of the pensions still to be paid was estimated (December 1924) at 30 billions of francs."

It should be remarked that all these calculations are made in paper francs, of a very fluctuating value. Who can say in these conditions, even approximately, what has been and what will be the expenditure under the head of reparations?

VII

Up to this point, our conclusions have been negative. We have been unable to discover in the official figures the approximate amount of the expenditure incurred, or to be incurred, by France for the restoration of the devastated areas and the indemnification of the military and civil sufferers by the War.

In his book, *A Revision of the Treaty*, which appeared in 1922, Professor Keynes has attempted to calculate, in an approximate but sufficiently accurate manner, the amount of the material damage

¹¹¹ *Op. cit.*, p. 61.

¹¹² *Chambre*, No. 441, p. 89. See also the report of M. Lamoureux, deputy, 27th August 1924, *Chambre*, No. 537, pp. 5 et s.

that France suffered from the War. He gives the figure of 16 billions of gold marks, that is, 20 billions of gold francs, or at the rate of exchange of the early part of 1922 (1 dollar = 12 francs paper) 46 to 48 billions of francs paper. Professor Keynes arrives at the figure of 16 billions gold marks in the following manner. He takes, in the official French documents, the number of houses wholly or partially destroyed; he considers the number of acres of land laid waste. He investigates the average value of a house and of an acre of land. A simple process of multiplication gives approximately, but with sufficient accuracy, the real amount of damage.

(1) Let us take *buildings* to begin with. According to the official French figures submitted to the Senate by the President of the Council, M. Briand, on the 6th April 1921,¹¹³ the damage was composed as follows:

Houses totally destroyed	293,733
Houses partially destroyed	296,502

One may assume, says Mr. Keynes, that, as the majority of the houses partially destroyed had been, according to M. Briand, repaired at the beginning of 1921, these houses were half destroyed, which is equivalent to 148,251 houses completely destroyed, or in all (293,733 + 148,251) 441,984 houses completely destroyed. In respect of these the French Government claimed, says Mr. Keynes, 16,768 millions of gold marks, or an average sum per house of 113,550 paper francs (at the rate of 50 francs to the pound sterling). Estimating the cost of reconstruction at five times the pre-war price, Mr. Keynes proposes as reasonable a sum of 25,000 paper francs per house, according to which, he says, the claim of the French Government is three and a half times the true cost. He concludes that the damage to buildings does not exceed £250,000,000, or at 50 francs to the pound (the rate of exchange that prevailed when he wrote) 12,500 millions of paper francs.

(2) As regards *furniture and fittings*, the French Government claimed, in 1921, 11,417 millions of gold marks. Assuming that all the furniture and fittings of all the houses that were destroyed or damaged disappeared completely, this would be 11,417 million gold marks for the furniture and fittings of 590,000 houses, or 18,880 gold marks for the furniture and fittings of each house. Taking the

¹¹³ *J. O., Sénat, 2^e Séance du 6 avril 1921, Débats*, p. 612.

mark as worth 3 francs, we should get 56,640 francs for the furniture of every workman's or peasant's cottage. "I hesitate to guess," concludes Mr. Keynes, "how great an overestimate shows itself here."

(3) Under the head of "industrial damages," continues Mr. Keynes, the French Government claimed, in 1921, 7673 millions of gold marks (cost of reconstruction) or 38,882 millions of paper francs (1 dollar = 14 paper francs). Early in 1919, M. Loucheur estimated the cost of restoration of the coal mines at 2 billions of francs paper (1 dollar = 5.45 paper francs). It would follow that the damage to the other industries would exceed 33 billions of paper francs. Moreover, the French official documents estimate the number of industrial establishments brought to a standstill at 11,500; but this figure includes village workshops, three-fourths of which employed less than 20 persons; and half of them were at work again in 1920. We should thus get an average of 3 millions of paper francs (£1 = 50 paper francs) per establishment. "The exaggeration," Mr. Keynes concludes, "seems *prima facie* on as high a scale as in the case of houses and furniture."¹¹⁴

(4) There remains the *land unbuilt-on*. The Government claimed under this head, in 1921, 9850 million gold marks, or 21,672 millions of paper francs (1 dollar = 14 paper francs). On the 6th April 1921, the French President of the Council informed the Senate that 95 per cent of the arable land had been levelled, and that 90 per cent had been ploughed and would yield crops.¹¹⁵ This shows, says Mr. Keynes, that the repair of this class of damage has proved easier than had been anticipated. The cultivated area affected was about 6,650,000 acres (excluding forests), of which 270,000 acres were in the "zone of destruction," 2,000,000 acres in the "zone of trenches and bombardment," and 4,200,000 acres in the "zone of simple occupation." The claim, therefore, averaged, over the whole area, about £90 (3300 paper francs) per acre. "Even with high estimates for each of these items," says Mr. Keynes, "I do not see how we could reach a total above a *third* of the amount actually claimed."

Professor Keynes's conclusion is as follows: "These arguments

¹¹⁴ *Op. cit.*, p. 112.

¹¹⁵ Senate, 2nd sitting of 6th April 1921. *J. O., Sénat, Débats*, p. 612.

are not exact, but they are sufficiently so to demonstrate that the claim sent in to the Reparations Commission is untenable. I believe that it is at least four times the truth. But it is possible that I have overlooked some items of claim, and it is better in discussions of this kind to leave a wide margin for possible error. I assert, therefore, that on the average the claim is not less than two or three times the truth."¹¹⁶

VIII

The calculations of Prof. Keynes are the most serious that have been made up to now. Nevertheless they should not be accepted. They do not square with the French data recently supplied by the *Rapporteurs* of the Committees of the French Chambers, relative to the work of estimation carried out by the local reparations commissions.

The report presented on the 10th December 1921 by M. Edward Eymond, deputy, on behalf of the Finance Committee on the Special Budget of Recoverable Expenditure for the year 1922¹¹⁷ contains a table communicated by the Ministry of the Liberated Areas, which shows the indemnities applied for at the 31st July 1921 by those who had suffered loss. These are as follows:

	<i>Number of applications</i>	<i>Amount of loss (Value in 1914) Millions of francs</i>	<i>Total of indemnity (Replacement value) Millions of francs</i>
Requisitions by the enemy	580,200	5,800	16,683
Movable property	1,357,100	10,800	25,396
Immovable property	1,013,000	20,000	75,621
Totals	2,950,300	36,600	117,700

The sum of 114 billions of francs represents very roughly the amount of the indemnities claimed by the sufferers for damage to property. These claims are much exaggerated. According to the awards, to the 31st July 1921, of the estimating commissions, the total indemnities granted, where conciliation was adopted, amounted to 12 billions of francs against 15 billions of paper francs de-

¹¹⁶ *Op. cit.*, p. 114.

¹¹⁷ *Chambre, No. 3535*, pp. 89 *et s.*

manded, or a reduction of one-fifth. Where conciliation was not adopted, the total indemnities granted amounted to 277 millions of paper francs against 546 millions demanded, or a reduction of about two-fifths.

It should be noted that, at the outset, believing that Germany would pay all the reparations, the commissions were generous; subsequently they showed more severity. It is not excessive to suppose that the commissions will reduce the claims of the sufferers as a whole by a quarter. These would accordingly be diminished by 28 to 30 billions of francs, showing a total expenditure of 84 billions of paper francs. As the French Government claimed in February 1921 122,600 millions of paper francs for damage to private property alone, the excess under this head would be 38,600 millions of paper francs.¹¹⁸

These are the latest figures given by the Government. On the one hand, in his lecture on the 17th March 1924 to the Committee of Social and Political Studies, M. Reibel, Minister of the Liberated Areas, stated that "the grand total of damage to *private* and *public* property might be fixed at about 100 billions of francs paper."

¹¹⁸ It is true that M. Bokanowski's report on the General Budget of 1923 contains other information which, when set by the side of the demands presented in 1921 by the French Government, makes these demands appear very moderate. In 1921 the French Government estimated the damage to public works at 2583 millions of paper francs. M. Bokanowski, at the end of 1922, states (Report 1922, No. 4820, p. 12), without indicating the source of his information, that the total damage to public works alone is estimated at 11,600 millions of paper francs, as follows:

Roads	1,500 millions of paper francs
Inland navigation	1,078 millions of paper francs
Railways	4,050 millions of paper francs
Mines	5,000 millions of paper francs

11,628 millions of paper francs

But in French law, mines are not public works but private property. On the other hand, the French Government probably did not include railways in 1921 in the statement of damages to public works, although railways are dependencies of the public domain and are public works. If these two items are eliminated, M. Bokanowski's figures (2518 millions of francs) merely reproduce those submitted in 1921 to the Reparations Commission (2583 millions).

The Minister analyzed this sum as follows :

(a) *Indemnities for damage to private property.*

Effectively paid at 17th March 1924, about	54 billions of paper francs
Remaining to be paid to sufferers, at most,	28 billions of paper francs

Total	82 billions of paper francs
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The total demands for indemnities put forward by the sufferers amounted to 140 billions of paper francs.

(b) *State domain* (roads, canals, railways, buildings, telegraph and telephone systems, etc.) about 18 billions of paper francs.¹¹⁹

On the other hand, in his report dated the 27th August 1924 (*Chambre*, No. 537, page 7), M. Lamoureux, deputy, wrote on behalf of the Finance Committee as follows: "By the 1st October 1924 the commissions of the *cantons* or *arrondissements* had taken decisions on most of the files. The indemnities granted amounted to 71,056 millions of (paper) francs, a figure representing a reduction of about one-third on the demands of the sufferers. There remain only 59,000 files to be considered, but these deal with important losses. The demands amount to 18 billions. If the decisions reduce the demands in the same proportion as in the past, the damages still to be settled would amount to 12 billions, and the total of the indemnities granted for damage to property would thus reach 83 billions."

¹¹⁹ On the 17th March 1924, the Minister observed that, thanks to the payments that had been effected, the work of restoration of the liberated areas had made great progress: "In order to define the general position of the work of restoration, I may state that out of 8,166,684 acres laid waste, 7,200,000 have been restored, including 4,446,000 acres of plough-land out of 4,750,000. In other words, the work in this respect is practically finished, inasmuch as about 135,000 acres, where the soil was too deeply disturbed, will be unfit for cultivation for many years, or even perhaps for centuries, and have been expropriated by the State, which is afforesting them so far as possible.

"The number of houses and agricultural buildings destroyed was 741,993; 598,000 of these have now been reconstructed. Of 22,900 industrial establishments that had suffered, 20,500 have been restored. Finally the population, which in August 1914 was 4,690,180 and which had fallen at the time of the armistice to 2,075,067, now reaches the figure of 4,210,000."

The *Inventaire* (December 1924), on p. 86, gives somewhat different figures for the 1st January 1924. On the 31st July 1924 the figures contained in the *Inventaire* are 7,320,739 acres of land, 4,413,547 acres of arable, 605,989 houses, 20,872 industrial buildings, and 4,298,387 inhabitants.

IX

The figure of 82 billions of paper francs granted for damage to private property has been denounced in certain quarters in France as excessive. Deputies of the devastated areas have started a campaign to secure the revision of the indemnities awarded to the principal sufferers. Serious abuses are said to have occurred, and there has been talk of scandals. The Chamber of Deputies appointed a committee of inquiry, which, in 1924, drew attention to very grave irregularities. The Government admitted these; it asked the Chambers to pass a law authorizing the revision of the war indemnities exceeding 500,000 francs. This law, after a lively discussion, was voted by the Chambers. It is the law of the 2nd May 1924. Estimates differ very widely as to the probable results of the revision. The more optimistic speak of a saving of several billions of francs. The Government is of opinion that the abuses are less serious than has been said and that the repayments will be of small amount, a few millions.¹²⁰

¹²⁰ In his lecture of the 17th March 1924, M. Reibel, the Minister of the Liberated Areas, indicated the precautions taken to prevent abuses, and explained the arrangements for checking the estimates of damages: "This work of estimation," he said, "is an enormous undertaking: it has involved the examination of 3 million files, representing demands whose total amounts to 140 billions of francs. On the other hand, speed was desirable, in the interests of sufferers and of the State alike. At the present time out of these 3 million files, only about 80,000 await a decision, and these involve important damages (17 to 18 billions). . . . How was the estimation done? It may be conscientiously asserted that as a whole the estimates were prepared as satisfactorily as possible. Does this mean that no abuses occurred? Certainly not. But what must be declared and repeated is that these abuses form a minute proportion, and that it is profoundly unjust to base general statements on them, and to cast cruel and unmerited suspicion on the attitude of the sufferers by the War. Indeed, every time that I have become aware of an exaggerated indemnity, I have had searching and complete inquiry made, and when this inquiry has established the dishonesty of the sufferer, I have had recourse to the measures provided by the law: civil proceedings with a view to the total or partial forfeiture of the indemnity, criminal proceedings for false declaration when this has been accompanied by fraud within the terms of Art. 405 of the Penal Code. I may state that the number of proceedings initiated to date is 1170, and that 310 of these have already led to convictions. Proceedings for forfeiture have been taken in 210 cases, and the sums which they have enabled us to recover amount to 4,117,140 francs."

X

The Reparation Commission came to the conclusion in 1921 that the claims put forward at that time by the several Governments were exaggerated; instead of accepting the figure of 225 billions of gold marks proposed by the Allies (of which 95 billions were for pensions and allowances, and 130 billions for damage to property), the Commission, by a unanimous vote, awarded only 132 billions of gold marks, 58 per cent of the sum claimed. It would appear that this was not, as has been suggested, a drastic cutting down of the claim, but rather a fresh estimate closer to the truth, though made at random, without serious examination.

However this may be, we shall know accurately the amount of France's war expenditure only when all the accounts have been settled.

XI

This is not all. In order to know the cost of the War to France, we should have to deduct from the amount of the damage caused and from the expenditure of the Treasury on the restoration of property and compensation of persons, the sums actually received from Germany in virtue of the Treaty of Versailles.

Here we are in even greater uncertainty than when we were endeavoring to estimate the amount of the damage. Many years must pass before one can know the actual payments made by Germany.

On the morrow of the armistice, the rulers in the victorious States were ready enough to say: "Germany will pay." It was enough that the claim to reparations was just for it to be regarded as wholly recoverable. Besides, would not each of the Allied Powers have the whole world behind it in recovering its claim? Was there not a recent and famous precedent, that of 1871, after the Franco-German war? Had not a victorious Germany exacted the effective payment of more than five billions of francs from a conquered France? Had not France succeeded in satisfying, in two and a half years, her ruthless creditor? What France had then done, why should Germany not do now? No doubt Germany would suffer. But such suffering was amply justified by the conduct of the German leaders and of the German troops, by the devastation wrought by the enemy, and by the destruction of the sources of French economic production. Was not conquered Germany economically intact, possessed

of all her facilities for production, and with technical processes improved during the War? Willingly or under coercion, Germany should pay.

These arguments were developed in France with much passion and insistence. The French public was quite prepared to accept them. It was exasperated by four and a half years of appalling warfare. The determination to exact reparations at any cost was energetically asserted. The economic, political, and social difficulties involved by the problem of reparations were apparently not perceived. All the talk was of justice and equity. What was economically possible was not discussed. Those who wished to discuss it were suspected of connivance with the enemy. But months and years have passed since the 11th November 1918, and in 1924 the reparations debt due by Germany had not been diminished by a farthing.¹²¹

We must briefly recall the phases through which the reparations problem has passed in France.

(1) It was thought, at the outset, that the victors would merely have to state the amount of a claim to reparations, however formidable, for that claim to be accepted by the Reparation Commission and charged to Germany. This conviction, in France, was so firm that the Government deliberately refrained from naming a precise figure, for fear that it should not be large enough (see above, pp. 76-79).

(2) It was also thought that it would be enough to include in the Treaty of Versailles an affirmation and an admission of Germany's responsibility to make the payment easier. Article 231 of the Treaty of Versailles, which opens the section on Reparations, reads as follows: "The Allied and Associated Governments affirm

¹²¹ In his lecture of the 17th March 1924 to the *Comité d'études sociales et politiques*, the Minister of Liberated Areas, M. Reibel, made the following statement: "The grand total of damage to private and public property may be fixed at about 100 billions of paper francs. May I set against this formidable figure that of the payments made by Germany? According to the official data of the Reparations Commission, the total payments received by France down to the 31st December 1923 amount to 1,804,192,000 gold marks, from which must be deducted on account of the cost of occupation, the Spa advances and the exchange guarantee, 1,614,414,000 gold marks. So that the balance, which alone falls to be carried to the reparation account, is 189,778,000 gold marks. The enormous disproportion between this figure and that of the damage which I have just quoted needs no comment."

and Germany accepts the responsibility of Germany and her allies for causing all the loss and damage to which the Allied and Associated Governments and their nationals have been subjected as a consequence of the War imposed upon them by the aggression of Germany and her allies."

This view, however, was keenly criticized by the political parties of the left (Socialists and Radical-Socialists). What value, they asked, can be attached, morally or legally, to a recognition by Germany of her sole responsibility, when this recognition is inserted in a treaty of peace that has not even been discussed by the German authorities, that was imposed on them by force? Is not Germany justified in asserting that this is a recognition obtained under duress, possessing neither moral nor juridical value? Is not the responsibility of Germany a question for history, which the declaration in the Treaty of Versailles leaves unresolved? It is easy to understand, the same critics continued, that the Allies should have asserted Germany's responsibility: in their eyes this declaration justified the claim to reparations formulated in the following articles. But why have added "and Germany recognizes"? Is not this an abuse of force, and, what is worse, a serious blunder? Expert historians will attach no importance whatever to the admission inserted in the Treaty.

The political parties of the left added a further criticism. This admission, they said, is a hindrance to the payment of reparations. For the payment is constantly represented by many Germans as the recognition of Germany's *exclusive* responsibility, against which they have unceasingly protested and still protest. The Allies wounded the deepest sentiments of the German people when they said to it: "You must pay for all the consequences, all the damage of the War, not because you have been conquered, but because you are alone responsible for having let loose this War, because you have been guilty of the worst of crimes." This solemn affirmation, the critics said, was bound to provoke an instinctive reaction; and that is what happened. The Germans of the governing classes, who are called upon to bear the chief burden of reparations, have not failed to stir up national pride in order to escape payment. The Treaty of Versailles furnished them the pretext.

The above criticism was qualified by an important reservation. It must not be supposed, it was added, that if Art. 231 had been omitted

from the Treaty, Germany would have paid her reparations debt with alacrity. But the simple truth is that the Treaty of Versailles provided her with an excellent ground for resistance.

(3) No serious consideration was given to the question whether hundreds of billions of francs can be transferred from one State to another without upsetting the economy of the debtor State, of the creditor States, and of the whole world. The provisions of the Treaty of Versailles are as follows: Art. 232 recognizes the inadequacy of Germany's resources to make complete reparation for all losses and damage. After this admission, the Article proceeds: "The Allied and Associated Governments, however, require, and Germany undertakes, that she will make compensation for all damage done to the civilian population of the Allied and Associated Powers and to their property during the period of belligerency of each as an Allied or Associated Power against Germany by such aggression by land, by sea, and from the air, and in general all damage as defined in Annex I hereto." Annex I enumerates ten categories of damage to be made good by Germany.

By Art. 233, "The amount of the above damage for which compensation is to be made by Germany shall be determined by an Inter-Allied Commission to be called the Reparation Commission. . . . This Commission shall consider the claims and give to the German Government a just opportunity to be heard. The findings of the Commission as to the amount of the damage defined as above shall be concluded and notified to the German Government on or before May 1, 1921, as representing the extent of that Government's obligations. The Commission shall concurrently draw up a schedule of payments prescribing the time and manner for securing and discharging the entire obligation within a period of thirty years from May 1, 1921."

Meanwhile, "in order to enable the Allied and Associated Powers to proceed at once to the restoration of their industrial and economic life, pending the full determination of their claims, Germany shall pay in such installments and in such manner (whether in gold, commodities, ships, securities or otherwise) as the Reparation Commission may fix, during 1919, 1920 and the first four months of 1921, the equivalent of 20,000,000,000 gold marks. Out of this sum the expenses of the armies of occupation subsequent to the Armistice of November 11, 1918, shall first be met, and such supplies of food

and raw materials as may be judged by the Governments of the Principal Allied and Associated Powers to be essential to enable Germany to meet her obligations for reparation may also, with the approval of the said Governments, be paid for out of the above sum. The balance shall be reckoned towards liquidation of the amounts due for reparation."

There is no occasion to study the machinery devised to put these provisions into force. What we have to determine is the amount of the sums paid in virtue of these articles.

The Allies had until the 1st May 1921 to present their claim. The French Government, rejecting any lump sum estimate, submitted, in February 1921, a list of damages of which the total came to over 217 billions of paper francs. The other allies also put in their estimated claims, amounting to more than 160 billions of francs (at the rate of exchange of February 1921). The Reparation Commission did not accept these figures. It fixed the total amount of reparations, for all the States having claims on Germany, at 132 billions of gold marks, plus 4½ billions for the advances made to Belgium.

In England Lord Curzon declared, on the 5th October 1923, that the Reparation Commission, in fixing this figure, had underestimated the claims; and a similar opinion was expressed in France.¹²² However this may be, France's share in this total had still to be determined. Article 237 of the Treaty of Versailles leaves it to the Allied and Associated Governments to make the apportionment, "in proportions which have been determined upon by them in advance on a basis of general equity and of the rights of each."

On the 16th July 1920, the allied Governments, in conference at Spa, made an apportionment by which France was to receive 52 per cent. Assuming that Germany discharges the obligations imposed upon her by the Treaty of Versailles and by the decision of the Reparation Commission, France would receive accordingly 52 per cent of 132 billions of gold marks, that is 68,640 millions of gold marks, or 85,820 millions of gold francs. Is there a great difference between this and the 217,541 millions of francs claimed by the French Government from the Reparation Commission? Not if the

¹²² See however the protest of M. Louis Dubois, deputy, in the Chamber, on the 3rd April 1924. (*J. O., Chambre, Débats*, p. 1754). M. Dubois had been President of the Reparation Commission.

franc is reckoned at its value of February 1921 (1 dollar = 14 francs), for 85,820 millions of gold francs were then worth more than 250 billions of paper francs. It seems impossible to say, until the accounts are closed, whether this figure of 85,820 millions of gold francs is nearer the truth.

The decision of the Reparation Commission, combined with the Spa agreement, and with the London agreement of the 5th May 1921 determining the dates of payment, left French public opinion positively dumbfounded. The public had believed that Germany would pay, to the last cent, a sum exceeding 200 billions of francs. It could not reconcile itself to accepting so small an amount. As the months went by, however, it became apparent that this sum of 85 billions of gold francs would never be paid.

(4) For many years it was believed in France that Germany would pay her debt in cash, in gold, or in foreign currencies. Ministers of Finance provided in their budgets for the payment by Germany in gold or in foreign currency: the finances of the State, which had been profoundly dislocated by the War and by the extravagance of the period following the armistice, would thus be rehabilitated without difficulty. "The whole future of the finances of France depends on the payment of reparations," said the *Rapporteur* of the Finance Committee, M. de Lasteyrie, in December 1921.¹²³ It seemed practicable and easy. Ministers who had taken part in drafting the Treaty of Versailles produced calculations in the Chamber. On the 5th September 1919, the Minister of Finance, M. Klotz, said: "Let us put the debt of Germany to France at 200 billions, and to all the Powers at 375 billions. Let us assume that 36 years will be required for Germany to discharge the whole of this debt. The annuity, so far as France is concerned, would be 13,610 millions, and the total effective payments would amount to 463 billions in round figures."¹²⁴ A few moments before, the Minister had been careful to warn the Chamber that "the figures I shall quote will be figures approaching to the reality, plausible suppositions."¹²⁵

A week later, on the 11th September 1919, another Minister, M. Loucheur, spoke in confirmation as follows: "What is the maximum sum that Germany will be able to pay each year? We have

¹²³ *Chambre*, No. 3537, p. 55.

¹²⁴ *J. O., Chambre, Débats*, 5th September 1919, p. 4192.

¹²⁵ *Op. cit.*, p. 4191.

studied the question and come to the conclusion that the figure of 18 billions in gold, which has been mentioned here, is one that in a few years—I do not say immediately—Germany will be able to pay.”¹²⁶

By what process of reasoning was this forecast arrived at? “Germany,” said M. Klotz, “will pay with the excess of her production over her consumption.” This excess, before the War, amounted to about ten billions; but these ten billions gold of the pre-war period, he added, correspond to 20 billions gold after the War. As the amount of the damage must be assessed at the cost of repairing it, so the annual excess of German production must be reckoned on the basis, not of the pre-war value of her produce, but of its present value. On this basis it may be estimated at about 20 billions of gold marks.

Similarly, M. Loucheur explained that Germany would pay with the excess of her exports over her imports, in other words, through her favorable commercial balance. But before the War, Germany had an unfavorable commercial balance: her imports exceeded her exports. How was this balance to become so favorable after the War as to furnish an excess of 18 billions of gold francs? The solution of the problem, according to M. Loucheur, lay in the fact that “18 billions of gold francs represent about 6 billions of the pre-war period.”

These wild statements were accepted without challenge. They produced a great impression on the Chamber. Naturally, observes Professor Rist,¹²⁷ the whole edifice of expectation built up by the two Ministers in the Chamber is based on the confusion between gold prices and paper prices. No doubt prices have trebled since 1914. But, as everyone knows, the standard, in France as in Germany, is today only a paper standard. Need we then be surprised if foreign observers, accustomed to treat such questions in the practical spirit and with the precision that they call for, should have attributed this disregard of an obvious truth to deliberate self-deception on the part both of the men who held out these hopes and of those who appeared to place faith in them? We may perhaps find a sufficient explanation of this aptitude for self-suggestion if we admit that there is still truth today in the melancholy words uttered fifty years ago

¹²⁶ *J. O., Chambre, Débats*, 11th September, p. 4277.

¹²⁷ Rist, *Les Finances de Guerre de l'Allemagne*, 1920, pp. 269 and 270.

by Léon Say: "The public intelligence, in economic questions, has made far less progress in France than anywhere else."¹²⁸

In any case, a large number of Frenchmen believed that Germany was in a position to pay many billions of francs each year to France, in gold coin or good foreign currency.

(5) No consideration was, for a long time, given in France to the economic difficulties in the way of the discharge, within some thirty years, of a debt amounting to the formidable sum of 136 billions of gold marks. We pointed out these difficulties when we were dealing with the question of the inter-allied debts.¹²⁹ Similar difficulties arise here.

As French Governments did not understand the economic problem, their attitude towards the German Government was not such as to favor the payment of reparations in kind. It was thought necessary to give active protection to home products, to French commerce, against German imports of all kinds. Not only must a high tariff wall be raised to protect French home industries against the introduction of German goods into France, but, more than this, the employment of German goods and German labor must be prohibited in the restoration of the devastated areas: the restoration must be reserved for French contractors and French labor. The specter of unemployment was evoked; and play was also made with the patriotic feeling of repugnance with which the introduction of German workmen in their midst would be viewed by the inhabitants of the devastated areas. This is the policy which has been picturesquely described as that of the "game preserve."

This customs policy and the system of the "game preserve" have been kept in force. In December 1921, the *Rapporteur* of the Finance Committee of the Chamber, M. de Lasteyrie, who became Minister of Finance a few days later, took up their defense, though in a somewhat mitigated form. On the morrow of the Wiesbaden agreements (6th October 1921), which contemplated and organized deliveries in kind by Germany, with a view to expediting the restoration of the devastated areas and to facilitating the payment of reparations, the *Rapporteur* wrote:¹³⁰ "The Wiesbaden agreements,

¹²⁸ Introduction to the first edition of the French translation of Goschen's *Foreign Exchanges*.

¹²⁹ See above, p. 71.

¹³⁰ Report of the 10th December 1921, *Chambre*, No. 3537, p. 24.

beneficial as they certainly are, are not altogether free from disadvantages, whose importance cannot be overlooked. There is an obvious danger that the German goods will come into competition with similar French goods. Our industries will lose the advantage of orders, which will benefit German industries. In the period of business depression through which we are passing this consideration must be very carefully weighed. It must however be observed that the liberated areas constitute a market of a quite exceptional character, and that our manufacturers cannot count upon it normally. It would therefore be unwise that they should direct their output towards this market alone, abandoning meanwhile foreign markets to their German competitors. Let me add that German products entering France under the arrangement adopted at Wiesbaden will have to pay customs duties under the same conditions as any other foreign goods. Our manufacturers will therefore enjoy the tariff protection that they ordinarily receive."

An objection arose: if Germany could pay only with the produce of her exports of goods and by means of deliveries *in kind*, was it not inconsistent to prohibit the entry of German goods and to refuse reparations in kind and in the form of labor?¹³¹ This objection assumed considerable force when, in March 1923, the Reparation Commission made known the amount of Germany's payments in 1922. A very interesting article published in the *Temps* of the 16th March 1923 (*Les livraisons en nature faites par l'Allemagne en 1922*) showed that France had received in 1922 deliveries in kind amounting to 209 millions of gold marks distributed as follows:

	Millions of gold marks
Goods for the restoration of the devastated areas	0.9
Ships	5.1
Animals, wood, building materials, etc.	16.0
Coal, benzol, sulphate of ammonia	181.2
Dyestuffs, chemical products	2.3
Gillet agreement	2.4
Other heads	1.4

¹³¹ See, in particular, besides the book of M. J. Caillaux, *Où va la France, où va l'Europe*, 2nd edition 1924, the speeches in the Chamber of Deputies of M. Herriot (11th January 1924, 3rd April 1924; *J. O., Chambre, Débats*, pp. 1759 *et s.*); of M. Tardieu, deputy (3rd April 1924, *J. O., Chambre, Débats*, p. 1763). See also the reply of the Government to a written question put on the 26th January 1923 by M. de Lubersae, senator (*Sénat, J. O.*, 16th February 1923).

Whereas France was entitled, the *Temps* observed, to receive 950 millions of gold marks in this form, she had, except as regards coal, had recourse to reparations in kind only to an insignificant extent. Why had this happened? Had more been demanded and how much? The official documents were silent on the point. The other countries on the contrary had received nearly the whole of what was due to them (500 millions of gold marks).

In short, concluded the *Temps*, France received only two-ninths of the reparations in kind to which she was entitled (209 millions of gold marks out of 950 millions), or omitting coal, 28 millions of gold marks out of 769 millions. Had France endeavored to make sufficient use of deliveries in kind?

Since the publication of the report of the Reparation Commission, in March 1923, speakers of different political parties, on various occasions, asked the Government for explanations. In particular M. Tardieu pointed out that, whereas in 1922 France was entitled to receive deliveries in kind to a value of 950 millions of gold marks, she applied for less than 300 millions. M. Herriot, in turn, asserted that France had in 1922 received 273 millions, of which 181 millions represented coal and coke. The equivalent of only 19 millions of gold marks, he added, had been received and made use of for the benefit of the liberated areas. This, said M. Herriot, was a serious matter; for the other countries had received, in 1922, 500 millions of gold marks. M. Herriot concluded as follows: "What has happened? It is this—and I am not afraid of being contradicted, for what I am about to say is confirmed by other information. A certain number of manufacturers who played an essential part in this business—one of them, as I know by the admission of other manufacturers, actually wept at the idea that we should take materials from Germany—exerted themselves so that coal and coke were taken because these were a valuable resource; but services in kind were refused, even for the devastated areas, because this meant competition."¹³²

The official speakers replied to these criticisms, rather evasively, that Germany had refused to lend herself to the execution of a vast scheme of public works proposed by the French Government.¹³³

¹³² Chamber of Deputies, 3rd April 1924; *J. O., Chambre, Débats*, p. 1762.

¹³³ See the speeches of M. Poincaré and M. Le Troequer, Minister of Public Works, 3rd April 1924, *J. O., Chambre, Débats*, pp. 1763 *et s.*

(6) Another fact, according to the politicians of the Left, explains the failure to secure the execution of the scheme of reparations provided by the Treaty of Versailles. It is the belief in the sovereign efficacy of force.

French public opinion, for a long time, declared itself generally favorable to measures of coercion. Frenchmen saw that Germany, having attempted methodically to effect the economic ruin of France, had failed in her endeavor and was vanquished. Justice required that she should at least make good the damage and not leave the victim of the aggression and the conqueror in the War to bear the burden. Was it not a rule of equity that the losing party repairs the harm done? Did not Germany go further in 1871, when she exacted a punitive indemnity in addition?

They saw, further, that the German authorities had hitherto shown no disposition to discharge their obligation. Moreover, many Frenchmen believed that Germany so far had paid not a cent since the armistice; it was known to relatively few that billions of gold marks had been paid by her since 1918, but had been absorbed, and more, by the cost of the armies of occupation and of the inter-allied commissions of control.¹³⁴

Finally the immense majority of Frenchmen were disconcerted by the attitude of Great Britain and the United States. The negotiators

¹³⁴ According to the statement prepared by the Reparation Commission of the payments made by Germany from the armistice to the 31st December 1923, that is to say of the amounts with which the Reich has been credited by the Commission, the total paid by Germany to the end of 1923 has been fixed at 8,411,399,000 gold marks (about 40 billions of francs at the present rate of exchange). The German Wolff Agency replied to the Commission's published statement that a number of important items had as yet not been valued, and that others, such as the merchant fleet, had been valued far too low. According to the German calculations, the payments by Germany under the head of reparations amounted already on the 31st December 1922 to 41.6 billions of gold marks, to which should be added 14.3 billions for payments for other purposes than reparations. "Besides," added the Wolff Agency, "if France complains that she has received too little from Germany, she should consider that the cost of occupation to the end of 1923 amounted to more than 5 billions of gold marks. There are 27 States that benefit by the German payments, and if, according to the calculations of the Reparation Commission, France received in 1923 payments amounting only to 13 millions of gold marks, as against 155 millions to Italy and 112 to Yugoslavia, that is not Germany's concern." (*Temps*, 27th March 1924.)

of the Treaty of Versailles had promised France, (1) the security of her territory against German invasion, through the Franco-Anglo-American alliance, and (2) the cordial support of those Powers in the recovery of the reparations claim. What has happened since 1919? The Senate of the United States refused to sign the treaty of alliance and of territorial guarantee, and the signature that the British Parliament had conditionally given to this treaty automatically lapsed.

Moreover, in 1921, the United States made it known that they intended to recover the sums advanced by them to the Allies for the common cause; as a consequence, Great Britain also put in a demand for payment. The French thus found themselves called upon by their former allies and associates to settle a debt which they firmly believed they would never be required to pay. Meanwhile the American and British Governments had constantly urged France to show moderation towards Germany in the recovery of her reparations claim, and had not concealed the repugnance with which they viewed any measure of coercion.

The bad faith of Germany on the one hand, the disappointment as regards the United States and Great Britain on the other, combined to drive most Frenchmen to exasperation. Very many of them, ignorant of economic difficulties which French Governments had never explained to them,¹³⁵ rejoiced at the failure of the Paris Conference of the 2nd January 1923, a failure that opened the way at last for the independent action of the French Government and the occupation of the Ruhr. For this policy of coercion, M. Poincaré, the President of the Council, undoubtedly had the support of public opinion, of the great majority of the Chamber of Deputies, and of practically the whole Senate.¹³⁶ But the policy was very keenly criticized by the

¹³⁵ "Why have our estimates been falsified?" wrote the Minister of Finance in 1922, "Why are we faced to-day with a deficit of nearly 4 billions? It is because Germany has not carried out the Treaty of Versailles; it is because engagements, which we were justified in expecting to see fulfilled, have not been kept. Before asking the French public to make fresh sacrifices, it is the strict duty of the Government to use every means in its power to oblige Germany to repair the ruin and devastation that she has caused. You may rest assured that the Government will apply all its energy to this object." *Exposé des motifs du projet de budget pour 1923* (Chambre, 1922, No. 4220, p. 118.)

¹³⁶ On the 11th January 1923, the Senate, with only one dissentient voice among those voting, ordered the speech in which M. Poincaré expounded his

parties of the Left (Socialists and Radical-Socialists) as doomed to defeat.¹³⁷ The capital error, according to them, lay in the complete failure to recognize a very simple fact. The German people will pay its formidable reparation debt only if it wishes to do so. For it will not pay it out of its available existing wealth, which would be quite inadequate for the purpose; it will pay it out of its labor, out of its economic production. The labor would have to be unrelenting and the production intense. Now there is no people in the world which would consent to work solely for the honor of paying reparations. Force alone will therefore be powerless to secure the payment of reparations. Economic pressure is not ruled out as a means of persuasion. But we must, above all, look for economic and financial arrangements that will be advantageous both to the creditor and the debtor, and will not discourage the debtor in his effort to pay. There lies the whole difficulty.

What appears certain, said the few opponents of the policy of coercion, is that recourse to force, the occupation of the Ruhr territory, will stir the German people to hatred, to a desire for revenge, and to passive resistance. A more practical solution would be the one to which most Frenchmen have become gradually resigned: to reduce considerably the claim on Germany, and, in order to save appearances, to induce the United States and Great Britain to forego the reimbursement of their war loans. This is what was advocated in 1919 by Professor Keynes. It was then rejected with indignation in France, as manifestly inspired by an unpardonable sympathy for Germany. The arrangement was set forth as follows by Professor Keynes in November 1919:¹³⁸ (1) reduction to £2,000,000,000 of the debt on account of reparations and cost of occupation; (2) payment of that debt in thirty annuities, without interest, beginning in 1923; (3) complete cancellation of inter-allied debts contracted for the purposes of the War.

policy of isolated action and occupation of the Ruhr to be placarded throughout France.

¹³⁷ See, *inter alia*, (1) the discussion at the *Ligue des Droits de l'Homme*; *Le Congrès national de 1923* (1-3 November 1923) Paris, 1924, pp. 273-403; (2) the speech of M. Herriot, in the Chamber of Deputies, 3rd April 1924, *J. O., Chambre, Débats*, pp. 1758 *et s.*

¹³⁸ *The Economic Consequences of the Peace*, 1920, pp. 236 *et s.*, the whole of Chapter VII, "Remedies."

This reasoning gradually made an impression on public opinion. By 1923 the Poincaré Government and the Chambers were reconciling themselves to the reduction of the reparations claim and the cancellation of inter-allied debts.

Meanwhile the situation became increasingly serious. At the end of 1923, as the policy of coercion was producing no result beyond a world-wide resentment against the French Government, the latter resigned itself to the appointment of experts to formulate a practicable plan for the payment of reparations by Germany. In April 1924 the experts submitted their plan (the Dawes scheme), approved unanimously by them all, Americans, English, French, Italians, and Belgians. The French Government of M. Poincaré accepted it with reservations. But on the 11th May 1924 a general election took place in France, which gave the majority to the parties of the Left. The new Herriot Cabinet immediately adopted a new policy towards Germany and declared its intention of applying the Dawes scheme without reservation.

Two important points must here be noted.

(1) Under the Dawes scheme, what sum will France receive in respect of reparations? In the *Inventaire* of December 1924 the Minister of Finance stated that "we estimate the total yield of the experts' scheme at about 42 billions of gold marks, present value, and the share of our country at about 22 billions of gold marks, subject to all reserves as regards the supplementary sums to be recovered in respect of the extended duration of the scheme, which the settlement of inter-allied debts might render necessary."

(2) How will Germany pay the annuities imposed on her? All payments on account of reparations will be made in German money to the credit of the Agent General for Reparations. Germany will be discharged by the payment of German money. The transfer into values acceptable by the creditors will rest with the Allies. In other words, the greater part of the reparations will be paid in kind or not at all. When the unemployed payments reach 5 billions of gold marks, Germany will suspend her payments.

We have evidently travelled a long way since 1918. And it is impossible to say, even approximately—and this is the point that concerns us—what the cost of the War to France will be as regards reparations.

CONCLUSION

In fine, it is impossible to calculate approximately the amount of the public war expenditure of the French State in money. We have been unable, as regards any of the items of this expenditure, to arrive at precise and reliable figures.

In reality, the ascertainment of an exact figure is immaterial, for loss of money is no mortal injury; it is the least important of the consequences that a great national war entails upon a country.

The undoubted regression of morality and civilization, the economic and financial chaos amid which the world is struggling, these are effects of the War far more serious than the expenditure of money, however considerable it may be. These will be made the subject of a special study.

From a technical point of view, however, it will be of great interest to investigate the reasons why the War of 1914-1918 entailed expenditure of a magnitude such as no one had conceived before 1914.

CHAPTER II

PRINCIPAL CAUSES OF THE MAGNITUDE OF THE FRENCH WAR EXPENDITURE

It is impossible to determine, even approximately, the amount of the State's expenditure on the War, even when this is confined to expenditure in money. All that one can say is that the War of 1914-1918 brought to light a phenomenon that upset all forecasts, namely the vast scale of public expenditure when a national war is waged at the present day. It far exceeded anything that the wildest imagination had conceived before the War. As recently as the beginning of 1914, an English author had declared that a European war would cost Great Britain a million pounds a day,¹ and that at this rate a war could not last long. A French writer² had predicted, for all the belligerents taken together (Germany, Austria, Italy, France, and Russia), an expenditure of 43,679 million francs a year.

The expenditure certainly far exceeded this figure. After four years and three months of war, the struggle was brought to an end not by the financial exhaustion of one of the belligerents, but by superiority in arms, in numbers, and in leadership. The Government had found, in the issue of paper money, the means of extracting empirically, from private fortunes, all the resources that they required. In his book, however, *The Economic Consequences of the Peace*, Professor Keynes says:³ "Without the assistance of the United States the Allies could never have won the War." The most critical period from a financial point of view, according to him, was the six months that preceded the entry of the United States into the War, that is to say from the end of the summer of 1916 to April 1917.

If the expenditure of the War was formidable, the disbursements were even more important. For the economic upheaval caused by the War necessarily entailed the setting up of new public services, and in particular of food supply services for the civil population (wheat, sugar, meat, etc.); the State became sole purchaser on all the markets of the world, and then resold to the civil population. It

¹ Lawson, W. R., *British War Finance*, London, 1914.

² Bloch, *La Guerre future*, Paris, 1897, IV, pp. 313 *et s.*

³ London, 1920, Macmillan, p. 256 and footnote.

was consequently obliged to advance funds running to thousands of millions of francs. No doubt these advances were followed by repayments as resales took place. But the State was obliged to have recourse to short term loans and to the issue of paper money in order to be able to make the disbursements.

It is of the highest importance to trace, as a lesson of the War in the sphere of public finance, the principal causes of the vast scale of the war expenditure in France. We are here dealing with general principles, which will apply to the great national wars of the future. There were many causes; here are the most important:

- (1) The industrial character of the War of 1914;
- (2) The loans to allies;
- (3) The development or creation of relief services;
- (4) and (5) The rise of prices due to the economic and social conditions in which the War was carried on;
- (6) The inevitable waste due to the War;
- (7) The diminution or disappearance of financial control;
- (8) Speculation by war profiteers;
- (9) The increase of the public debt.

There were certainly other causes; but though they exerted a great influence, they were not the principal causes.

SECTION I

INDUSTRIAL CHARACTER OF THE WAR. ADVANCES BY THE STATE FOR INSTALLATION OF MACHINERY. CHANGE OF ACCOUNTING REGULATIONS AS REGARDS PAYMENTS TO CONTRACTORS

The War of 1914-1918 was essentially an industrial war. The moral factor was predominant; but equipment and munitions were also of capital importance. In the course of the struggle, the consumption of engines of war and of munitions of every kind exceeded all provisions. In France, even more than in any other of the belligerent countries, the active population (male and female) was divided into two great groups: soldiers and military employees on the one hand, and manufacturers of munitions and engines of war on the other. The peace industries were transformed into war industries, and this transformation cost thousands of millions of francs to effect. Moreover, the re-transformation of war industries into peace

industries also cost thousands of millions (indemnities on discharge of workmen, indemnities for cancellation of contracts, etc.). This explains what at first sight appears strange, that the last year of the War (1918) seems to have been the most costly, and that vast expenditure was still being incurred during 1919 and 1920, although the War was ended. As regards the transformation of peace industries into war industries in France, certain financial arrangements were devised which deserve notice. These were: (1) advances by the State to contractors for the provision or improvement of plant for the manufacture of munitions, and (2) special regulations for the payment of contractors. The description of these measures is in reality the financial history of the industrial mobilization of France for the War. It will be made the subject of a special chapter.

SECTION II

LOANS TO ALLIES

As happens in all great wars conducted by several States, the Great Powers found themselves obliged to lend money or munitions to their less wealthy allies to enable them to continue their military participation in the War. In the early stages France had to provide large sums. Subsequently she ceased to make advances, and received them. On the one hand she had to borrow about 26,450 millions of gold francs from the United States and Great Britain; on the other, she advanced about 15 billions, namely:

350 millions to Italy,
6,500 millions to Russia,
3,000 millions to Belgium,
1,738 millions to Serbia and Jugoslavia,
1,132 millions to the other allies.

As we have seen, France will find great difficulty in obtaining the repayment of these loans. Would it be just to claim it? In a great world war, where all profit by the victory, each one contributes what he has: his blood, his munitions, his money. If those who have shed much blood are subsequently required to pay enormous sums to their former allies, justice is violated. Politically the claim gives rise to recriminations, bitter in proportion to the magnitude of the loans and to the difficulty of repaying them. Finally, the insolvency of the debtors is manifest, and the difficulty of transferring payments

almost insurmountable. Hence it is better, from the outset, to regard the advances made by France to the Allies as so much final expenditure.

SECTION III

RELIEF SERVICES

The immediate effect of the national war in France was an intense *economic crisis*, a *disorganization of social life*. All men fit to carry arms or to render auxiliary services were mobilized. By one stroke hundreds of thousands of families were deprived of their mainstay—husband, father, son—on whose earnings they had hitherto lived. Another consequence of the mobilization was to bring most industries and trades to a stop, for the reduced staff available did not include the more efficient hands.

It appeared indispensable, in the interests of justice and social peace, not only that mobilized tenants should be relieved from the payment of rent—which involved a heavy war loss for the proprietors—but also that the State should organize regular relief services for the families of the mobilized men. This cost thousands of millions of francs a year. It was the most important, but not the only, measure of social relief undertaken during the War.

Allowances to soldiers' families, it has been stated,⁴ cost the French Treasury, from 1914 to 1919, 14,000 million francs. Here are the figures for the later years; I reproduce them with all reserve, warning my readers that they are very probably incorrect. I doubt whether they even give an idea of the order of magnitude of the sums involved:

In 1916	2,350 millions of francs
In 1917	2,900 millions of francs
In 1918	3,750 millions of francs
In 1919 (year of peace)	2,500 millions of francs

Relief of victims of the War (assistance to war orphans and tuberculous soldiers, training of disabled men), subsidies to the invaded departments, relief in very urgent cases in the departments affected by the War, cost, it is said, 295 millions of francs down to the 31st December 1919.

⁴ For statistics, see the report of M. Louis Marin on the ordinary Budget of Civil Services for 1919; *Chambre des députés, Doc. No. 6158*, pp. 29 et s.

Relief of refugees and of the population withdrawn from the invaded departments, down to the 31st December 1919, cost, it is stated, 2380 million francs in all. For the year 1919 alone the expenditure is said to have been about 772 million francs.

SECTION IV

RISE OF PRICES CAUSED BY THE ECONOMIC AND FINANCIAL CONDITIONS IN WHICH THE WAR WAS WAGED

The War resulted, in France, in a scarcity of labor (which was diverted to the army) and of raw material (which was employed for munitions and army supplies), and at the same time in a prodigious increase of consumption (owing to the army's requirements) and a disorganization of land and sea transport (owing to the dearth of available ships, and to captures and sinkings). The result was a progressive rise of prices, and consequently of public expenditure, whether of a normal character or connected with the War, on supplies, salaries, wages, etc.

Index number of wholesale prices.

(Prices of 1913 = 100.)

	<i>France (General Statistics)</i>	<i>England (Sauerbeck)</i>	<i>Italy (Bachi)</i>	<i>United States (Dun)</i>
1914 (3rd quarter)	116.8	117.5	....	112.5
1915	163.7	145.8	162.4	117.4
1916	215.5	181.3	237.0	138.0
1917	315.2	240.0	378.3	202.3
1918	401.8	266.1	517.2	218.5
1919	406.9	287.7	437.5	223.6

To counteract this rise, the civil population would have had to effect a rigorous and extensive reduction of its consumption of luxury commodities, or even of all commodities that were not indispensable. But it is extremely difficult to convey to uneducated minds—and these are the vast majority, both among the rich and the poor—the advantage, both to society as a whole and to the individuals themselves, of restricting individual consumption. This policy is thwarted by every kind of prejudice, in all classes of society.⁵ If

⁵ Gaston Jèze, *Les Finances de Guerre de l'Angleterre*, III, *passim*. (*Revue de science et de législation financières*, 1917, pp. 183 et s.)

compulsion is proposed, Governments hesitate or refuse, on the pretext that social tranquillity and public confidence must be maintained. Moreover, Governments rarely think of the future and of the inextricable financial and economic difficulties in which the country will presently be involved. They are concerned with the moment. They intervene very tardily and very feebly, not for financial reasons, not for the sake of economy, but only when there are not enough foodstuffs to go round.

The rise of prices forced the French authorities to sell certain articles of food of first necessity (breadstuffs) to the civil population below cost price, in order to avoid disturbances: this gave rise to a public expenditure amounting to thousands of millions of francs. The rise of prices had a similar consequence as regards the scales of official salaries, and the allowances to families of mobilized men; it brought about an increase in the scales.

As instances of the reaction, in France, of this rise of prices on public expenditure, the following facts may be quoted: the cost price of the military ration was

in the interior of France:	on the 1st January 1916	1 fr. 265
	on the 1st January 1917	1 fr. 31
	on the 1st January 1918	1 fr. 74
at the front:	on the 1st January 1916	1 fr. 93
	on the 1st January 1917	2 fr. 61
	on the 1st January 1918	3 fr. 26 ⁶

The temporary additions to the salaries of officials and the allowances granted them for the support of their families, which were rendered necessary by the rise of prices, are said to have cost the State, from 1914 to 1919, 840 millions of francs; indemnities to pensioners, 395 millions.⁷

SECTION V

FINANCIAL POLICY

The *financial policy* followed by France had the effect of bringing about a rise in prices and consequently a considerable increase of public expenditure. If the authorities had from the first imposed very heavy war taxes, they would have reduced private incomes, and

⁶ See M. Louis Marin's report, *op. cit.*, 1919, p. 28.

⁷ *Op. cit.*, 1919, p. 36.

as a result private consumption, in a marked degree. On the contrary the authorities financed the War mainly by loans, and private consumption was not reduced; it was even increased by the fact that the State, as borrower, placed a high rate of interest at the disposal of the lending public.

Finally the French authorities adopted the practice of forced loans, under the guise of the issue of paper money; the superabundance of paper depreciated the fiduciary currency, especially from 1919 onwards, and brought about a formidable rise of prices, of private and of public expenditure.

The financial policy of France during the Great War of 1914-1918 will remain a model of what *should not be done*. A worse financial administration it would be difficult to conceive. Great Britain, the United States, and Italy adopted a totally different financial policy. The United States had pursued the worst financial methods during the Civil War of the middle of the nineteenth century; and the lesson was not lost upon them. In the case of Great Britain the lesson dates from the Napoleonic wars.

SECTION VI

INEVITABLE WASTE

War is a source of inevitable waste. France experienced the truth of this during the period 1914-1918. The belligerents wasted, without the least consideration, food, munitions, equipment, and stores. It is extremely difficult to instil notions of financial economy into the minds of men who are under the continual menace of death. The public services, which even in peace-time are too frequently negligent where the public purse is concerned, found tempting excuses for carelessness in the necessities of warfare and the urgency of requirements: "War is war" was the refrain.

The staff recruited from outside to reinforce the ordinary establishment of the offices aggravated the negligence and indifference habitual to a bureaucracy, more often than not by an intimacy with war contractors, and occasionally, to speak frankly, even by corruption.⁸ There is no occasion to be surprised at this. It is difficult for

⁸ See the report of M. de Castellane on behalf of the Commission on War Contracts, and the discussion in the Chamber on the report, 2nd sitting of 16th February 1921, *J. O., Chambre, Débats*, pp. 604 *et s.* See also the

manufacturers, engineers, and traders, when mobilized and placed in some war administration, to forget their pre-war business relations from one day to the next, to avoid thinking of them with a view to the future. It is fortunate if they refrain from "doing business" while the war lasts. Such restraint was not the invariable rule. Public opinion was deeply disturbed by certain scandals involving the supreme heads of the Food Supply service. In these conditions, the financial interests of the State were not on all occasions very effectively defended by the temporary staff that drafted or concluded the contracts.

Finally, it was unusual during the War to come across an administrator who did not look upon the financial aspect of war supplies as of secondary importance. Indeed, the urgency was very frequently such that expenditure had to be incurred without careful examination: *salus populi suprema lex*.

The public, however, has exaggerated facts that were lamentable enough in themselves; it saw squandering where there was none. With the narrow reasoning of the ignorant, it failed to understand, for instance, that a variety of price for the same commodity might be perfectly justified during war by the necessity of obtaining the maximum quantity of munitions even at very high prices; the State had to encourage production even by manufacturers who were ill equipped, whose labor and management were defective, and whose production was very costly. This was not squandering, but production at any price, a course rendered legitimate by the needs of national defense.

Again, the prodigious profits earned by manufacturers of war material impelled the workers to demand high salaries from their employers. Ministers were to some extent obliged to support these claims in order to avoid a reduction of output: and yet it was the public treasury that bore the cost. This was an inevitable form of waste.

In spite of all this, the mistakes made by the administration were numerous and unpardonable.

speech of M. E. Brousse, formerly Under-Secretary of State for the liquidation of stocks; 1st sitting of 15th February 1921, *J. O., Chambre, Débats*, pp. 525 *et s.*

SECTION VII

FINANCIAL CONTROL WEAKENED OR ABOLISHED

A circumstance that aggravated the disorder, the waste, and the expense was the diminution or disappearance of financial control. During the War, the Parliament was unable to maintain an effective control over applications for credits: the enemy would have obtained information if programs of expenditure had been published and discussed. It was therefore obliged to grant the Government lump sum credits of several billions, without any careful discussion of their nature or amount. In England, these are called "votes of credit," in France they were known as "provisional credits."⁹ This question will be dealt with in a special chapter.

The officials of the department charged in peace-time with the administrative audit were overwhelmed by the immensity of their task; the method of audit was not suited to the need for urgent decisions and to the multiplicity of transactions.

Finally it must be borne in mind that, for the purpose of the War, the *military command* had to be given great liberty of action. But, as soon as this indisputable principle was admitted, abuses began. On the ground of the autonomy and independence of the command, every sort of control was resented, even such checks as could in no wise hamper the freedom of military operations (regarding the method of making contracts, the discussion of prices, the employment of material and labor, methods of work, examination of cost of production, etc.).

The French Parliament (like that of Great Britain) was faced during the War by insurmountable obstacles, and by manifest ill will. Press campaigns against abuses and scandals were denounced as the work of unpatriotic writers and "defeatists"; the censorship put a stop to them.

Nevertheless, the control exercised by the Parliament was not without efficacy, in spite of obstacles of all kinds put in its way by the Government. The latter began by trying to get rid of the Parliament altogether. Under pressure of public opinion, it was obliged to summon the Chambers at the end of December 1914. It was then that

⁹ Gaston Jèze, *Les Finances de Guerre de l'Angleterre*, I, pp. 26 *et s.*, and II, pp. 20 *et s.* See below pp. 163 *et s.*

the Parliamentary Committees endeavored to influence the political and financial conduct of the War. It is difficult to know exactly whether they succeeded, what part they played and what was their efficacy, so long as the minutes of the Committees remain secret.¹⁰ In any case, the check that a well informed public opinion might have exercised was entirely lacking. A rigorous and implacable censorship, the object of violent attacks in 1915, 1916, and 1917 by Messrs. G. Leygues, A. Tardieu, L. Klotz, and Clémenceau, suppressed everything that was not unreserved praise of the Government.¹¹ Indeed, the tradition of the censorship was piously preserved by those very politicians who had most vigorously criticized it, and who showed, when they came to power, that they had learnt nothing in opposition.

SECTION VIII

SPECULATION BY WAR PROFITEERS

The strengthening of administrative control—without hampering political action or the independence of the command—would have been one of the most efficacious means of combating *speculation*. In particular, the Government should have made liberal use of business men, the great manufacturers, commercial magnates, engineers, economists, lawyers, for the conclusion of contracts, for the checking of prices, and for the settlement of administrative methods. This was done, no doubt, in some measure in France, but not to a sufficient extent. Recourse to expert assistance was very inadequate. Moreover, it must not be forgotten that the employment of experts involved a possible danger, from their spirit of comradeship. Such assistants must possess a profound sense of civic duty if they are to give their energy and their time to the public service without reserve, without ulterior designs, and without thought for their personal interest. This sense of duty was generally present. Lapses in France were rare, as they were in all highly civilized countries. On the whole, the gain outweighed the loss, which, in human affairs, is enough to justify an institution.

¹⁰ Their publication has been begun.

¹¹ On this subject, see Gaston Jèze, *Les Finances de la Guerre de la France*, I, pp. 210 *et s.*; II, pp. 53 *et s.* (*Revue de Science et de législation financières*, 1915, pp. 635 *et s.*; 1917, pp. 27 *et s.*)

In France, a Contracts Commission attached to the Ministry of Munitions and Armament exerted a wholesome influence on the administration and on contractors. It forced the administration to examine prices and contracts with care; it checked, to a certain extent, speculation among contractors; and it supported the department in resisting the exorbitant demands of the latter. There was some suggestion that, as in England, the administration should have extended powers, should be authorized to require contractors to submit their books, so that cost of production might be checked. But this could not be obtained.

In France as in England, the power of requisitioning factories exercised a certain comminatory influence. But its value must not be overestimated: factories and labor can be requisitioned; intelligence and zeal cannot. The lure of profit was found, in practice, far more effective with employers and workmen than constraint or appeals to patriotism.

In spite of everything done to prevent it, contractors' profits were enormous. The high profits necessarily led to high wages. The employers had no personal interest in resisting this tendency; on the contrary, profits, calculated on the cost of labor, became greater. Certain Ministers even encouraged employers to grant high rates of wages in order to stimulate the workmen's zeal.

High wages and large profits developed the taste for useless expenditure, for unnecessary consumption, with all their economic reactions on the general rise of prices. It was a veritable economic scourge, of a kind that appears inevitable in war. Every country experienced it.

SECTION IX

INCREASE OF THE PUBLIC DEBT

In a great war, the *service of the public debt* requires an ever increasing expenditure. The scale of war expenditure is so vast that no nation, however great its fiscal courage, can dispense with a large measure of borrowing. Hence the payment of interest—the rate of which rises as the war continues and loans multiply—absorbs larger and larger sums.

Here is, with all reserve as to the correctness of the figures, according to the budget bill for 1923 and the *Inventaire* of December

1924,¹² the progress of the charges of the Public Debt from 1913 to 1923:

(*In millions of francs.*)

	<i>Budget Bill 1922</i>	<i>Inventaire</i>
1913	1,029	....
1914	1,053	1,360
1915	1,555	1,818
1916	3,010	3,327
1917	4,539	4,816
1918	6,740	7,021
1919	7,610	7,900
1920	10,888	11,700
1921	10,837	11,100
1922	12,266	13,600
1923	12,800	.....

The annual charge in respect of the different elements of the debt on the 31st March 1922 and the 30th June 1924 was, according to the *Inventaire* of December 1924 (pp. 28 *et s.*, and pp. 258 *et s.*), as follows:

Internal Debt.

(*In millions of francs.*)

	<i>Annual Charge</i>	
	<i>On 31st March 1922</i>	<i>On 30th June 1924</i>
Perpetual and long term debt	6,995	7,281
Short term debt	607	2,139
Floating debt	3,426	3,011
	<hr/> 11,028	<hr/> 12,431

*External Debt.*¹³

Commercial debt (to banks)	1,058	1,145
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It will be observed, as regards the external debt, which was much the heavier, that interest on the advances of the British and Ameri-

¹² *Exposé des motifs, 1922, No. 4220*, pp. 10 and 11. *Inventaire, No. 441*, pp. 14 *et s.*

¹³ The average rate of exchange at which the annual charge is calculated is, for 1922, \$1 = 16 fr. 57, £1 = 50 francs, etc.; for 1924, \$1 = 18 francs, £1 = 79 francs, etc.

can Treasuries had not up to now (1925) been paid. According to the solution that may be arrived at in the matter of the inter-allied debts,¹⁴ the amount of the annual charge in respect of the external debt will have to be increased by the sums whose payment has been adjourned.

¹⁴ See above, p. 56.

CHAPTER III

ADVANCES TO CONTRACTORS AND PARTICIPATION OF THE STATE IN THE EXPENSE OF ERECTING AND EQUIPPING FACTORIES TO CARRY OUT WAR OFFICE ORDERS

The problem.

ONE of the characteristics of the War of 1914-1918 that was least foreseen was the prodigious expenditure of ammunition, and particularly of shells. This expenditure was such from the outset that, however great might be the output, it was difficult to conceive that there could be any superabundance. All the military events of the early part of the War strikingly demonstrated this. If full advantage could not be taken of the victory of the Marne (September 1914), it was for want of ammunition. If the offensive of June 1915 did not yield the expected results, it was again for want of ammunition. If the great effort of September 1915 was less successful than had been hoped, it was yet again for want of ammunition.

No doubt the supply of ammunition progressed greatly from one date to the other. But even in 1916 and 1917 it could not be said that manufacture was equal to requirements. The growing conviction that there would never be too much ammunition, and that victory—rapid and complete—would depend on unlimited supplies, led the French Government to intensify the manufacture of projectiles of all kinds.

During the first months of the War, there was some uncertainty as to the best policy to follow in this respect. The French Government, without neglecting what the home industry could do, counted mainly on foreign countries, and particularly on the United States, to supply France with munitions. It may be asserted that, during 1914 and even during the early months of 1915, North America and other foreign countries furnished France with the greater part of her stocks and war material.

SECTION I

REASONS FOR THE FINANCIAL PARTICIPATION OF
THE STATE

This policy had serious disadvantages, which were not long in revealing themselves:

(1) *Insufficiency of output.* As France was not the only country that placed orders in the United States, the supply was not equal to the demand.

(2) *Price of ammunition and war material.* The price of munitions was higher in America than in France, because in a general way wages are at all times higher in America than anywhere else.

This was not all. The Allies, in applying as largely as they did to foreign manufacturers, conferred on these a sort of monopoly, which was aggravated by competition among the Allies themselves; this allowed American manufacturers to ask monopoly prices; strictly speaking, there was no competition among the manufacturers, for the demand for munitions far exceeded the supply.

It became evident that if the home production of munitions were increasingly developed, both in France and Great Britain, the *de facto* monopoly of the Americans would be impaired and would even disappear. Competition might make itself felt and bring about a fall in the American prices. In this way, not only would the quantity of munitions at the disposal of the Allies be increased, but more favorable prices would also be obtained. Hence the effort, first made in France, then in England, to create a national munitions industry.

(3) *Course of the exchange.* The large imports of munitions from abroad exerted a considerable and most unfortunate influence, in France and Great Britain, on the course of the exchange from 1915 onwards. The commercial balance, by reason of the enormous imports of munitions of American manufacture, inclined more and more against France. Whereas at the end of 1914 the foreign exchange rates were in favor of France, the situation changed radically from the first month of 1915. Suddenly, a considerable rise was noted in Paris in the rates on New York and London. Needless to dwell on the heavy charges that a high rate of exchange entailed on commerce in general and how it affected the purchases of all kinds (wheat, cotton, etc.) carried out in America by the Government and by private persons.

The measures taken by the Minister of Finance—Anglo-French conferences of February and April 1915,¹ purchase of American securities, etc.—failed to check this rise in the exchange, for the reason that the one and only cause of the rise—the vast importations from America—did not cease. The true remedy was to reduce the imports; and this was a further inducement to intensify the *home* production of munitions.

(4) *Increase in the munitions placed at the disposal of the Allies.* Another advantage of this policy of restricting the orders placed by France abroad was to increase indirectly the quantities of explosives or war material available to be purchased by other allied powers that were unable to produce them at home in sufficient quantities—such as Russia and Italy.

(5) *Wages, unemployment, etc.* Finally—and we have here one of the reasons that appear to me to have had most effect on public opinion in the first year of the War—it was to France's interest during this titanic struggle that the money spent on the War should be paid to her own nationals rather than to foreigners. To have as large a quantity of munitions as possible made by French manufacturers and French workers meant paying hundreds and thousands of millions of francs as *wages* to French workmen and workwomen, as *profits* to French manufacturers, as *dividends* to French shareholders. This advantage was not to be neglected, inasmuch as it mitigated in a certain degree the crisis produced by the War. It would also have a more remote effect. At the end of the War, the fact that French money had not gone out of France would enable the economic recovery of the country to proceed more rapidly; the foreign debt would be far smaller than if the vast orders placed abroad had been increased.

To sum up, it was observed as early as 1915 that

(1) for an early and complete victory, there was need of an intensive, continuous, and unlimited output of munitions and war material;

(2) it was of importance, for military, financial, and economic reasons, that this output should so far as possible be obtained from the home industry.

¹ On these conferences, see Jèze, *La conférence de Paris de février 1915*, in the *Revue de Science et de législation financières*, 1915, pp. 269 et s., and especially pp. 276-285.

SECTION II

THE QUESTION OF FUNDS

In order to secure an intensive output of munitions through the home industry, there were two essential requisites:

- (a) personnel;
- (b) funds.

(a) As regards personnel, a directing staff, and a staff of skilled workmen were required;

(b) as regards funds, these were indispensable for the purchase of raw materials, for the payment of labor, for the enlargement of existing and the erection of new factories, and for the purchase of machinery and plant.

I

The problem of personnel was solved by a change in the categories of military service to which men were assigned: the Government, helped and urged by the Chambers, showed the energy required to recall from the front or to draw from the depots those manufacturers, engineers, chemists, and metallurgical workmen who were capable of rendering useful service in the production of munitions.

The question of funds, which was equally important, was more difficult to resolve. It had several aspects:

(1) There existed in France, even before the War, large industrial establishments where munitions and war material were manufactured. It was expedient to request these establishments to increase their output. This development naturally required money in large amounts. In peace-time, the great manufacturers used to obtain money for such purposes by loans raised either from the public or from their bankers. But the War had placed these manufacturers in a position of much difficulty. On the one hand, the development of output had to be, as it were, instantaneous. On the other hand, the decree of the 9th August 1914 imposing a moratorium in respect of cash deposits in banks, although it left to manufacturers who were supplying the State the disposal of their working capital (Art. 4, §§ 7, 8, and 9), had the practical effect of preventing them from obtaining either bank loans or loans by public subscription.

(2) Funds were even more urgently needed by those manufac-

turers who did not make munitions in peace-time, and who were now called upon to produce munitions and war material as promptly as possible. These required money not only to purchase raw material and pay for labor, but also to adapt their old premises, to buy or lease land, erect buildings, and acquire plant. It was in the public interest to have recourse to everyone who was honest and capable of manufacturing munitions, even if he had made none before the War.

In a word, an *industrial mobilization* of France was indispensable. But, given the economic position, not only at the outset of the War but many months after the commencement of hostilities, it was practically impossible for these citizens to find the credit necessary to enable them rapidly to equip and set going munition factories. If then the Government wished to intensify the *home* output of war material and munitions, it must find a prompt and satisfactory solution of the money question.

The simplest method was for the State to make *advances* to manufacturers of munitions, whether of old standing or newly established, naturally after having satisfied itself of their integrity and of their aptitude for production. The indispensable funds that banks and credit establishments were unable to supply to French manufacturers, it was natural and legitimate that the State should advance them. State loans to French manufacturers were thus entirely justified: there was the interest of national defense; there was the urgent and imperative necessity of increasing to an unlimited extent the output of munitions; and there was the impossibility for French manufacturers of obtaining the necessary funds from the public or from the banks.

II

The method of advances was, by itself, insufficient to resolve the problem. No doubt the considerable profits anticipated by the manufacturers were such as to provide an incentive to numerous and fruitful undertakings. But given the vast extent of the State's requirements, the Government could not, was not entitled to, depend exclusively on private initiative. It had to take thought how to provide against the insufficiency of what private initiative would produce. It had itself to set up, or to take a large share in setting up, munitions factories, by supplying part or all of the management; or the labor;

or part or all of the plant, either in kind, or as capital, or by an increase in the price payable for deliveries, corresponding to a more or less complete and rapid depreciation of the plant; or part or all of the raw material; and finally, in every case, by placing funds at the disposal of the managers of these factories.

There was a danger that without this intervention by the State, manufacturers of probity and ability would hesitate to launch out into a hazardous enterprise, to build factories that would manifestly be useless after the War, and to purchase machinery that would rapidly deteriorate under the stress of intensive manufacture.

It is easy to see, therefore, that the measures taken by the State to develop the *home* output of munitions had to take many different forms, and that its intervention was more or less active according to circumstances. The *home* manufacture of munitions, as it existed during the War, assumed, from a juridical and economic point of view, very varied aspects. The two extreme cases were:

(1) The manufacturer supplying independently, without receiving any assistance from the State, either in personnel, or in plant, or in raw material, or in money;

(2) The manufacturer constituted manager on behalf of the State, with an interest in the business.

Between these two extremes there was a great variety of types, according as the State coöperated more or less actively with the manufacturer by supplying personnel, plant, raw material, or money. With such a diversity of arrangements, the legal position evidently could not be and was not uniform. Legally the manufacturer figured at times as a purveyor pure and simple, at others as a borrower, at others as financed by the State, at others again as a manager on behalf of the State. It will be sufficient for the moment to mention this important aspect of the matter, without going into it more closely.²

SECTION III

ADVANCES, STATE PARTICIPATION, AND THE PUBLIC ACCOUNTS REGULATIONS

The administration found, at the outset, an obstacle in its way, in the French Public Accounts Regulations.

² See below, pp. 137 *et s.*

I

Prohibition of advances. The fundamental principle of French public accounts is that *no payment may be made to the actual creditor who establishes his claim except for a service rendered* (Decree of 31st May 1862 on public accounts, Art. 10, §1). The proof that the service has been rendered is supplied by the vouchers which the official authorizing the payment is to furnish to the accountant in support of the order to pay. This is an extremely sound principle, confirmed by long experience, and the Accounts Regulations provided for very few exceptions thereto. Advances might be made only exceptionally, in particular to *régisseurs*, that is to say to officials of services administered by the State on grounds of economy. The regulations also provided that advances might be made for the payment of troops, and for travelling allowances, for purchases on commission, for allowances assigned to persons sent on a mission or on extraordinary service of a certain duration, for the construction of astronomical instruments and instruments of precision, etc. As regards State purveyors and contractors, the Accounts Regulations explicitly forbade advances to these. The only authority granted was for *payments on account*. There is an important difference between an *advance* and a *payment on account*. The essential idea underlying an advance is that no service has been rendered; that underlying a payment on account is that a service has been rendered. This is what Article 13 of the regulations of 1862 on public accounts explicitly states. It prescribes that "No contract or agreement for works or supplies is to provide for payments on account except in respect of services rendered. The payments on account are not to exceed five-sixths of the sums due as established by regular vouchers detailing the service rendered, unless special regulations have fixed some other limit exceptionally."

These fundamental rules were supplemented for the period of the war by the regulations of the Ministry of War, but only to the extent that the maximum proportion of payments on account was raised to eleven-twelfths.

In short, in time of war as in time of peace, the fundamental principle of public accounts was the almost absolute prohibition of advances properly so called, that is to say, of the payment to contractors of any sum whatever for services not yet rendered; in par-

ticular, for the purchase of raw material intended for the manufacture of munitions, for the hire of the labor required for that manufacture, or for the acquisition of the plant or the erection of the premises indispensable thereto.

II

The Accounts Regulations thus placed only three simple modes of procedure at the disposal of the Government for the purpose of the home manufacture of munitions:

(1) Contracts for supply;

(2) Direct administration by the Government;

(3) Administration by the Government, the manager having a part interest. They did not provide for the participation of the State in a greater or less degree, for its association with the manufacturers under the many varied forms described above, in particular under the form of a considerable increase in the price of the goods manufactured, with a view to effecting a rapid, even on occasions an almost immediate amortization of the plant.

As soon as, owing to the force of circumstances, new legal and financial arrangements appeared indispensable to secure the proper working of the home manufacture of munitions, it was desirable, if not inevitable, that new rules should be formulated so as to give the State, not only all the required guarantees (proof of expenditure, security), but also all the just advantages corresponding to the services, more or less considerable, rendered by it; reduction of prices, right of redemption, right of taking over the factory or the plant, royalties, etc. Legally these rules were not absolutely indispensable; the State might devise them for itself; it was, however, more prudent not to trust entirely to its initiative.

SECTION IV

NEW LEGISLATION AND REGULATIONS REGARDING ADVANCES

The Government and the Parliament applied themselves, as early as 1915, to filling up the lacunae brought to light by experience, to modifying and completing the pre-war regulations. At the outset, these modifications and additions concerned exclusively advances properly so called, that is to say, the placing of repayable sums of

money at the disposal of manufacturers producing or able to produce munitions of war. Subsequently, they had in view other modes of State participation: in particular, that of financial subsidies, and that of a substantial addition to prices for the purpose of effecting a more or less rapid amortization of the premises and plant.

The work of the Government and the Parliament was not carried out all at once. Three main phases may be distinguished, down to the end of the year 1915.

(1) *In the first period*, which commenced with the outbreak of hostilities and lasted until the 15th July 1915, the Government, at first independently and subsequently under the control of the Chambers, made regulations on the subject of money advances, limiting their purpose to the purchase of *raw materials* and to the *payment of wages*. In this first period, the need for speeding up the home production of munitions had not yet fully come to light.

(2) *During a second period*, from the 15th July 1915 to the end of September 1915, the Government, with the encouragement and approval of the Parliamentary Committees, devoted itself to developing to the utmost the home manufacture of munitions. It was led accordingly to make regulations on the subject of money advances to manufacturers for the purpose of setting up and developing the plant required for carrying out the orders placed at home.

(3) *In September 1915*, the Parliament took advantage of the vote of the provisional credits for the fourth quarter of the financial year 1915 to intervene more actively: it gave explicit and imperative instructions to the Government concerning the regulation of money advances for the purpose of setting up and developing plant, and also concerning the financial participation of the State in the expenditure involved thereby.

Let us consider these three periods.

FIRST PERIOD. FROM THE OUTBREAK OF HOSTILITIES TO THE DECREE OF THE 15TH JULY 1915.

(Decrees of 20th December 1914 and 27th March 1915.)

System of advances for the purchase of raw materials and for wages.

The Government did not, on the first outbreak of hostilities, contemplate the industrial mobilization of the whole of France for the

manufacture of engines of war. Its object was only to provide the great industrial establishments already in existence with the means of rapidly carrying out the orders for war material and munitions that the State had placed with them. For this purpose it adopted two series of measures designed to supply these establishments with funds for the purchase of raw material and for the payment of wages.

I. The moratorium decrees.

In the decrees imposing a moratorium in respect of deposits of cash in the banks, the Government was careful to exempt more or less completely from the operation of the moratorium the manufacturers or purveyors who could prove that they had Government orders relating to national defense. For this purpose, an explicit provision was included in Art. 4 of the moratorium decree of the 9th August 1914: "Manufacturers whose establishments have been requisitioned in virtue of the law of the 3rd July 1877 will be entitled to withdraw the total amount of the funds belonging to them. Manufacturers and purveyors who can prove that orders have been placed with them by the State for the needs of national defense . . . will be entitled to withdraw their funds to the extent of the expenditure, over and above that for labor, required for the execution of the orders." The decree of the 29th August 1914 (Art. 4) reproduced the above formula but restricted it, though it is impossible to explain satisfactorily this restriction, which was extremely advantageous to the banks and credit establishments. The right of withdrawal was reduced by the amount "of the advances granted by the State." This new formula was maintained by the decrees of 27th September 1914 (Art. 6), of the 27th October 1914 (Art. 6), of the 15th December 1914 (Art. 2), of the 25th February 1915 (Art. 2), of the 15th April 1915 (Art. 3), and of the 24th June 1915 (Art. 3).

II. The circular of the 16th August 1914.

The Government at once perceived that this first measure was insufficient. Given the economic and financial situation in France, manufacturers were unable to obtain credit. The Government decided to advance them money. To do this, it was necessary to remove the absolute prohibition of advances contained in the Ac-

counts Regulations. The Ministers of War and Finance agreed on the terms of the circular of the 16th August 1914³ addressed to the *ordonnateurs secondaires*⁴ of the War Department concerning the payment of advances to the War Office contractors.⁵

Seeing that a fundamental rule of the decree of 1862 on public accounts and of the Accounts Regulations of the Ministry of War was being altered, a decree was apparently necessary to effect the change. However this may be, the circular set forth as follows the reasons, the purpose, and the machinery of the advances: "In view of the large supplies required by the War Department and of the difficulties encountered by contractors in procuring credit, it has been decided by the Ministries of War and Finance in consultation that, during the War, advances may be granted to contractors for stores before any delivery has been made. The advances thus granted will be for the purpose of enabling them to procure the raw materials or semi-manufactures required for the execution of their orders, or to pay the wages of their employees as the manufacture or preparation of goods for State account proceeds."

Thus, the circular of the 16th August 1914 contemplated only two categories of advances, (1) advances for the purchase of *materials*, and (2) advances for the payment of *wages*. It in no wise authorized advances for the setting up or development of the *plant* required for carrying out the orders placed with the home industry.

III. *The decrees of the 20th December 1914 and 27th March 1915.*

At the end of December 1914, just before the Chambers met, the Government bethought itself of getting the reform that had been effected by simple ministerial circular sanctioned by a regular de-

³ Inserted in the *Journal Officiel* of the 18th August 1914. See also the Circular of the 24th August 1914 issued by the *Direction Générale de la comptabilité publique* of the Ministry of Finance, which gives corresponding instructions to cashiers.

⁴ *Ordonnateurs secondaires*. Officers empowered to authorize a payment to be made. The system is explained at p. 125, *supra*. [Translator's note.]

⁵ A circular of the Ministry of Marine dated 27th August 1914 and addressed to maritime prefects and to directors of naval establishments at places other than ports, while stating that, in principle, "a similar measure is in most cases unnecessary at the Ministry of Marine," decided that exceptionally these provisions might be extended to the navy under the same conditions and restrictions.

cree. This was the essential purpose⁶ of the decree of the 20th December 1914. At the same time, the provisions of the circular of the 16th August 1914 were modified in one respect: the period of repayment, which had at first been fixed at one month, was extended to two months; experience had shown that the period of one month was too short: "For it frequently happens that the first deliveries giving occasion for payment are effected more than a month after the advance was made, either because of delay in the transport of raw materials, or because of the time required for the manufacture or preparation of the goods."

At the request of the Budget Committee of the Chamber, the regulations were recast in a further decree of the 27th March 1915; this decree, however, made no changes of importance, and in fact introduced unnecessary complications.

IV. *System of advances for raw material and for wages.*

Throughout this period the Chambers did not demand, nor did the Government formulate, any rule regarding security, in the legal sense of the term, nor concerning the interest to be secured to the State in connection with the advances. The *Rapporteur* of the Finance Committee of the Senate, M. Milliès-Lacroix⁷ merely drew attention to the fact that "according to the ministerial circulars, the advances were to be granted only to manufacturers of *well-known solvency*, and that the amounts advanced were to be determined with reference to the degree of solvency."

But in law, new regulations were not required to empower Ministers to stipulate in the contracts for any guarantees (security, personal or material), or any advantages (interest, royalties, etc.), that they thought desirable. The administration has, in law, the power, when it makes a contract, to require from the purveyor all the security, all the advantages that it thinks it legitimate to de-

⁶ The title of this decree might give a different impression: "Decree concerning the period within which advances to war contractors must be repaid." One has only to read Art. 1 of the decree and the addition to Art. 141 of the Regulations of 1869 to be satisfied that the essential object was, as stated above, to regularize the reform that had been effected by the circular of the 16th August 1914.

⁷ Report of 3rd June 1915 (inserted in the report of M. Aimond, No. 199, pp. 11 *et s.*).

mand in the public interest, as a set-off against the exceptional assistance which it gives to the manufacturer.

Having regard to the exceptional character of advances in French accounting procedure, and the special reasons for which they were introduced, it is evident that the faculty under which advances might be granted to State contractors should have been interpreted by the administration *quite restrictively*.

In fact, the administration undoubtedly misunderstood its duty and failed to defend, as it should have done, the interests of the State. Contractors believed that the decrees of 1914 and 1915 conferred on them an actual *right* to receive advances. And accordingly, on the morrow of the signature of their contracts, they did not hesitate to claim advances. The prospect that a contractor thus enjoyed of obtaining advances and then lending them at a high rate of interest only added to the number of applications for advances. Whereupon certain departments, overlooking the exceptional character of the advances, failing to see the inconvenience that they were causing to the Treasury and the high rate of interest that the State had to pay to procure the funds advanced to the contractors, fell into the habit of acceding to all the applications made to them and of granting advances without providing for payment of any interest.

As regards the interpretation, in principle, of this exceptional faculty of granting advances, it was held by some departments that all contractors should be placed on a footing of equality; and consequently that if an advance was granted to one of them, it would be unjust to refuse it to others. Thus, on the pretext of treating all contractors alike, the practice—irregular and in all respects disastrous for the finances of the State—was established of granting advances gratuitously on the mere application of contractors, without requiring proof that such advances were indispensable and were so at the moment when they were applied for.

This first erroneous and even distinctly irregular interpretation of the decrees of the 20th December 1914 and 27th March 1915 led to another abuse, which related to the amount of the advances. The exceptional power of the administration to grant advances was limited by a twofold maximum. It was manifest, given the general spirit of the regulations, that this maximum was not to be understood as the amount invariably to be accorded by the administration.

Here again the departments incorrectly interpreted the decrees. Not only did they grant advances to contractors without investigating whether they absolutely required them at the moment when they were accorded, but they failed to inquire into the exact amount that it was appropriate to advance, alleging the same pretext of treating all contractors on a footing of equality.

In short, the undoubted abuses to which the advances for raw material and for wages gave rise were due much less to the regulations relating thereto than to the negligence of the departments and to the incorrect and impolitic interpretation that they placed on the decrees of the 20th December 1920 and 27th March 1915.

SECOND PERIOD. DECREE OF THE 15TH JULY 1915.

INDUSTRIAL MOBILIZATION.

System of advances for purchase of plant.

As the War developed, the need for munitions and engines of war became more imperative. The supplies furnished by foreign industry and by such French factories as habitually produced munitions were proving insufficient. An *industrial mobilization* was found necessary. The Government and the Chambers decided to call upon all manufacturers, even those who had not previously made munitions, to undertake this production. The advantage of this new policy was not solely of a military character; it did not lie merely in an increase of output. It was also economic: it entailed a lowering of the prices paid by the Government and by the trade to foreign manufacturers; a reduction of imports and an improvement in the exchange; there was moreover an economic advantage in spending money in France instead of incurring a heavy foreign debt.⁸

As soon as the industrial mobilization was decided on, the question of funds naturally assumed an even greater importance. Many of the manufacturers who were called upon had no plant; not only had they to procure the necessary machinery, but the majority had in addition to set about the transformation of their premises, and their adaptation to the new process of manufacture; some of them had even to erect completely new factories.

⁸ For a fuller statement of these ideas, see above, pp. 120 *et s.*

I. Decree of 15th July 1915.

If the authorities were really to utilize all the good will and all the aptitude available, the State had to offer its pecuniary assistance to every manufacturer of probity and capacity whose financial resources were limited; it had also to overcome the reluctance of manufacturers, who shrank from sinking capital in the erection of works that would be useless after the War. The fact that the economic and financial situation of France had improved, and that the bank moratorium had in practice ceased to operate, had not done away with the need for the system of advances. For credit was still difficult to procure: the required funds could have been obtained only at an excessive, indeed prohibitive, rate of interest. Hence advances had to be provided, not only as heretofore for the purchase of raw materials and payment of wages, but also for the creation or extension of the necessary plant.

Such was the origin, and such was the governing idea that inspired the decree of 15th July 1915, concerning advances to be made to War Department contractors for the creation and extension of their plant.

By the very force of circumstances, the regulations governing these advances could not be absolutely the same as those relating to advances for the purchase of raw material and the payment of wages. Not only was it impossible to limit by regulation the advances for plant, the amount of which would be far more considerable; it was also impossible to require their reimbursement within the short limits of time conceded by the decree of the 27th March 1915.

It should also be observed that, in view of the magnitude of the sums advanced and the long period of repayment, an inquiry into the solvency of the manufacturers making application was no longer sufficient. It was expedient that, in every case of an important advance, the manufacturer should provide legal security—deposit, mortgage, or pledge of the stock-in-trade; it was necessary that the Government should be guaranteed not only against the possible dishonesty, but also against the possible misfortune, of the manufacturers. The interests of national defense were not incompatible with the protection of the interests of the taxpayer: the latter required

that cases of bankruptcy or liquidation should be foreseen and that the State should be given the position of a privileged creditor.

In fine, it was impossible in respect of advances for plant, to determine exactly, by a general regulation, the maximum to be accorded, any more than the conditions under which the money should be utilized or the advance repaid. These points had to be settled in each case and laid down in the contract.

II. Lacunae in administrative practice.

There were two important lacunae in the administrative practice generally adopted.

(1) The absence of legal security (deposit, mortgage, or pledge) to guarantee the repayment of the advances.

(2) The failure to require the payment of interest on the advances granted.

It is surprising that the administration should, in general, not have felt called upon to make any stipulation in these respects. On the one hand, it would have been quite legitimate for the State to require from its contractors the interest that these would unquestionably have had to pay to a banker if the funds had been borrowed from a banker and not from the State. On the other, it was neither unjust nor vexatious to require security for repayment from manufacturers whose solvency was not above suspicion.

III. Proposals of the Contracts Commission.

As soon as the Commission on Artillery and Munitions Contracts was set up, it insisted on the insertion, in a certain number of contracts that were submitted to it, of clauses relating to interest, and to the provision of a mortgage or pledge as security for the advance; the contractors were to undertake to furnish such security within a defined period.

Similarly, when examining contracts with hydro-electrical factories, under which constructional works were to be completed with the help of State advances, the Commission on Artillery and Munitions contracts required:

(1) the payment of interest at 5 per cent from the time an advance was made until its repayment, which should be effected in three annuities;

(2) mortgages, or the substitution of the State in earlier mortgages held by other parties.

Finally, on the 22nd September 1915, the President of the Contracts Commission, M. Claveille, submitted a number of general proposals relating to interest and security to the Under-Secretary of State for Artillery and Munitions, M. Albert Thomas:

“The decree of the 15th July 1915,” he said in his memorandum, “did not provide for the payment of any interest on the advances thus granted; but it is obvious that it would not be just to pay the same price for the same manufactured article to two manufacturers, of whom one provided new plant out of his own capital, and the other demanded advances from the State. It is right therefore to require either that the advances be repaid with accrued interest at 5.60 per cent, the rate on National Defense Bonds, or that prices be reduced so as to take expressly into account the advantage that the manufacturer derives from advances free of interest.”

As regards security, the President of the Commission made proposals with regard to certain model clauses.

All these proposals were approved by the Under-Secretary of State for Artillery and Munitions on the 25th September 1915.

The parliamentary Committees on their side did not fail to draw attention to the lacunae above mentioned. It was evident that no law or decree was required to make them good. Mere ministerial circulars would have been sufficient, such as that of the Under-Secretary of State for Artillery and Munitions dated the 25th September 1915. But in view of the lack of initiative shown by the administration in protecting the public interest, the Parliament decided to intervene and to give its own instructions as to the procedure to be followed by the Departments of the War Office.

A special article was accordingly, on the recommendation of the Budget Committee of the Chambers, inserted in the law of provisional credits (*douzièmes provisoires*)—Article 9 of the law of the 28th September 1915; this ran as follows: “The exceptional grant to contractors of the Ministry of War of the advances that may be necessary for the creation or extension of the plant required for carrying out orders placed with the home industry is conditional upon the insertion in the contract of clauses that shall stipulate for an annual interest to be paid to the State, and shall provide that the

execution of the obligations thus assumed by the manufacturer shall be guaranteed by a mortgage and if necessary by a pledge.

"No exception shall be made to the above provisions except in virtue of a decree approved by the Council of Ministers and countersigned by the Minister of Finance and the Minister of War.

"A decree adopted in the Council of State⁹ shall settle the terms of model clauses to be inserted for this purpose in the contracts."

SECTION V

PARTICIPATION OF THE STATE IN EXPENDITURE ON CONSTRUCTION OF FACTORIES, AND ON CREATION AND EXTENSION OF PLANT

The system of advances was not the only one devised to facilitate industrial mobilization. As has been shown above, an advance, both from a legal and a public accounts point of view, consists essentially in the assignment of a sum of money to a contractor before service rendered, on condition of repayment within a certain time. The State assumes the part of the contractor's banker. Any arrangement that does not unite these two essential conditions: payment of a sum of money before service is rendered, and obligation to repay, is not an advance properly so called.

It is at once apparent that the system of advances, in the true sense of the term, involving an obligation on the part of the manufacturer to repay the sum advanced, was not adapted to all the cases that presented themselves.

(1) The obligation to repay excluded from the munitions industry almost without exception those manufacturers who did not intend to carry on the business after peace was restored. What is the use, they said, of constructing factories which will be useless to us and unsalable? Why install costly plant, which will have to be dismantled when hostilities cease, entailing further expenditure on getting our works back into order? The system of advances evidently did not meet this difficulty.

(2) Even manufacturers who intended to continue the production of munitions after the War did not always find the system of advances, with obligation to repay, convenient. The intensive use of

⁹ *Conseil d'Etat*—a council of jurists and administrators charged with the duty of advising the Government. [Translator's note.]

machinery inevitably entails its very rapid deterioration; the machinery loses in a very short time a great part, or the whole, of its value. Such was undoubtedly often the case with factories producing acid for the Explosives Service, hydrogen for the Air Service, etc.

For neither of these difficulties did the system of advances provide an adequate remedy. The State was thus forced to adopt a rôle other than that of a mere banker to its contractors.

A possible arrangement was the participation of the State, by means of subsidies, in the cost of installing and equipping factories and purchasing machinery; or again the State might undertake the whole of the expenditure for these purposes and appoint the manufacturer its manager with a share in the profits; or finally it might come to the assistance of the manufacturer by agreeing to pay for the goods he supplied at a substantially enhanced price, so as to enable him to amortize the cost of his premises and machinery.

Such were the methods of participation adopted by the Government during the War. Before setting out these different systems in detail, it should be noted that the existing law gave the administration power to have recourse to one or other of them.

I. The various methods of participation.

The methods and degrees of participation varied greatly.

1st Method. Subsidy with share in undertaking. The State paid a part of the cost of erecting, enlarging, or equipping a factory, or of purchasing the machinery. This was the subsidy properly so called. The advantage to the State was threefold:

(1) The hesitation of the manufacturer was overcome, and the output of munitions was thereby accelerated.

(2) The prices paid by the State to the purveyor for goods ordered were reduced.

(3) The extension of factories and works in itself reduced the high degree of monopoly that the other manufacturers enjoyed. And this was calculated to bring down prices generally. It must be remembered that the fewer the hands in which an industry is monopolized, the higher are prices; each manufacturer endeavors naturally to secure the highest price.

In this first arrangement, which may be called the subsidy pure

and simple, the State figured legally and financially, no longer as the banker of the contractor, but as his actual partner, a partner with limited liability. His share consisted in the whole or part of the plant or machinery.

2nd Method. The State supplies the whole of the premises, the whole of the plant, the whole of the machinery. Here the system may be defined as something different from a true partnership: the manufacturer now figures only as a manager with an interest. For, in these conditions, he was relieved of the risks of the enterprise: the State supplied him with the whole of the plant and machinery; it made itself responsible for the entire amortization of the premises and plant; it furnished all or part of the labor; finally it gave him orders and took all his output. The question whether the State was the partner, with limited liability, of the contractor, or whether the contractor was merely a manager with an interest, depended naturally on the extent of the subsidy.

3rd Method. Another method consisted in a combination of advances with a participation in the cost of installation. After having estimated the total cost of the proposed works, the State would advance the whole sum to the contractor and required him to repay only a portion of this sum, one-half for instance.

Here the State figures in a double capacity: that of banker in respect of the advances, and that of partner with limited liability in respect of the subsidy, the sums, that is, which are not repayable.

4th Method. Another mode of participation by the State, which was a matter of greater delicacy, consisted in agreeing to a substantial addition to the price paid to the manufacturer for goods supplied.¹⁰

One of the factors in the price of a manufactured object is un-

¹⁰ Here is an example taken from an important contract for the manufacture of 40,000 shells of 270 mm., for the sum of 13,800,000 francs, on which the Contracts Commission reported favorably on the 16th November 1915: "The unit price of 345 francs is composed of 295 francs for manufacture and 50 francs for amortization. . . . The amortization of 50 francs per shell represents a total of 2,000,000 francs, equal to about 75 per cent of the expense that the contractors state they have incurred on movable and immovable plant and premises, excluding land, required for the execution of this order."

questionably a *percentage for amortization*. Every responsible manufacturer, when he fixes a sale price, takes into consideration, (1) the cost of raw material, (2) labor, (3) amortization, (4) general expenses, (5) profit.

The percentage for amortization naturally depends, apart from any intentional exaggeration on the part of the contractor, on a number of factors:

(a) First, the character of the industry.

(b) The cost price, more or less considerable, of the premises and plant; in war-time, for instance, in view of the formidable rise in the price of commodities and of labor, this factor is particularly important.

(c) The rate of output: the depreciation of the machinery will in some cases, but not in all, depend on this. Some machinery deteriorates much less when running continuously than when running intermittently.

(d) The greater or less skill of the manufacturer and his staff: a manufacturer who is thoroughly familiar with the technique of a process of manufacture is, in this respect, in a better position than a novice, however intelligent.

(e) The sale or utility value of premises and plant when manufacture ceases. The land, for example, on which a factory is built may, no doubt, increase or diminish in value; but it always retains some value. It is not always so with buildings and equipment. If, for instance, a manufacturer installs a large cement tank in a yard and subsequently discontinues the manufacture for which the tank was built, not only has the tank no sale value, but it even involves the manufacturer in expenditure on restoring the ground to its previous condition.

It should further be borne in mind that, owing to the abnormal war conditions, (1) the high cost of production by certain manufacturers did not prevent them from producing; they were even encouraged to produce, since the Government provided them with an assured market. (2) For the same reason, the selling price of goods of the same nature and quality on the French market was not uniform.

There is no occasion to dwell on these economic considerations. They suffice to show that in order to know the economic and finan-

cial grounds on which a substantial addition to prices was asked during the War by a given manufacturer, a careful study and minute and detailed examination were required of the conditions under which that particular manufacturer produced. The immediate and inevitable consequence was that the percentage for amortization could not be fixed at even approximately the same rate for all the manufacturers, even for those who were making goods of the same nature and quality. This being understood, one must be careful not to infer that when the State agreed to a substantial increase of the contract price so as to allow for amortization, it in every case added something to the manufacturer's capital and thus made itself his associate, his partner with limited liability. It may be that this considerable increase of price made no pecuniary addition whatever to the manufacturer's capital. It may be that it constituted precisely the condition required to prevent the undertaking from resulting in a loss, the condition but for which a novice in the process of manufacture would have refused to embark on the production of munitions. Such was, for instance, the case of the manufacturer who did not intend to continue the business after the War, who would certainly be unable to sell his machinery, and who would even be put to expense to dismantle his own plant and restore his premises to their former condition. In that event, even if the State had paid an increase of price equal to 100 per cent of the cost of the premises and machinery, it cannot be said that it had added anything to the manufacturer's capital.

The law laid down a perfectly reasonable formula.¹¹ Even when the substantial increase of price to cover amortization results in adding something to the manufacturer's capital, the precise amount of this addition, said the legislator, must be calculated solely with reference to the utility value of the plant after the order has been executed. And this value must be assessed, not absolutely, but in relation to the manufacturer concerned.

In view of these difficulties of appreciation and of estimate, what advantage had the State in adopting the system of increased prices in order to stimulate the output of munitions? Would it not have been preferable to adopt simpler and clearer arrangements, such as

¹¹ See the text of Art. 9 of the law of the 28th September 1915, below, p. 144.

that of subsidy with limited liability participation, or of direct management, for the very reason that these admitted of no ambiguity? The answer appears to be in the affirmative.

Nevertheless, the system of a substantial addition to prices is not in all respects disadvantageous. Skilfully handled, it might result in profit to the State. For instance—and this is what usually happened—it may be provided that the addition shall operate only in respect of the first order, or even in respect of a certain portion of the first order; for the purpose of subsequent orders, or even of the remaining portion of the first order, the prices may be substantially reduced. Now, although the State had been obliged, owing to the exigencies of the War, to pay very high prices to particular manufacturers, it was to its obvious interest that these high prices should be very exceptional. If a large number of manufacturers, for one reason or another, sold their products at a very high price, it became very difficult to get manufacturers who were able to produce much more cheaply to quote at prices approaching to their cost of production. As a result of the War, the manufacture of munitions tended to be a monopoly; prices tended, in consequence, to be monopoly prices, to cease to gravitate about the cost of production; and those manufacturers who were skilled and equipped before the War were enabled to levy a “rent,” an abnormal remuneration. That is why the State found it advantageous to reduce cost of production, as much as possible, among the unskilled manufacturers. This reduction tended to check the excessive rise in the prices quoted by the skilled manufacturers, to eliminate “rent,” in the economic sense of the term. The elimination of “rent,” in so far as it was effected, saved the State large sums of money.

This is the principal advantage of the system of a substantial increase in the price of the first orders, combined with a reduction of the price of subsequent orders. Was it sufficient to counterbalance the disadvantages of the system? The point is debatable.

II. *Advantages stipulated by the Government in consideration of the State's participation in expenditure on premises and machinery. Letter of Contracts Commission of 22nd September 1915.*

The decree of the 15th July 1915 included no instructions to the administration with regard to the advantages to be reserved to the

State in consideration of its participation in expenditure on premises and machinery. It was naturally the right and the duty of the administration not to wait for a categorical injunction, in this respect, from the legislator but to stipulate that the State should receive advantages from the contractors corresponding to its participation.

This was done at a very early stage by some departments in certain contracts. But such stipulations were not so frequent as one was justified in expecting. Accordingly the Commission on Artillery and Munitions Contracts, as soon as it was constituted, endeavored to modify the practice of the war departments in this respect.

In a letter dated the 22nd September 1915, addressed to the Under-Secretary of State for Artillery and Munitions, the President of the Contracts Commission, M. Claveille, submitted the following proposals: "Where the execution of a contract involves the erection of a new factory or of considerable premises, the amortization of which in whole or in great part is one of the components of the price paid by the State, whether or no funds have been advanced by the Ministry of War, the Commission is of opinion that the department should insert the following conditions in the contract:

(1) The Ministry of War to be entitled to resume the said premises, free of charge where amortization has been completed, and where it has not, on payment of a sum, determined by the contract, equal to the real cost of the factory, less the portion already amortized.

(2) The Ministry to be entitled to require the manufacturer to continue his supplies on a diminishing scale of prices, for such period as the Ministry may think fit; or the Ministry to stipulate that at the expiration of the first contract the supply shall continue for a period fixed by the administration, the difference between the current price of the same goods and their cost of production by the factory in question being shared in a proportion to be determined—for instance, equally between the State and the manufacturer, the latter undertaking in fact the management of the factory, while the State checks all the items of his accounts; the share of profit accruing to the manufacturer being paid in National Defense Bonds, payable after one year and not negotiable. Further, if the factory in question has been erected out of public funds and its whole output is not reserved to the Ministry of War by the contract, the administration should not only apply the above principles but also re-

quire a share in the profits that the manufacturer may derive from the factory, the cost of which the State has defrayed, during a determined period and at least until the termination of hostilities.”

These proposals were approved by the Under-Secretary of State on the 25th September 1915.

III. Criticism of the proposals contained in the letter of the Contracts Commission dated 22nd September 1915.

In my opinion, the proposals of the Commission in this connection were far too rigid. They did not sufficiently take into account the considerations which have been set out above in regard to the system of increased prices.

There was a danger that the manufacturer would be deterred by a demand for certain advantages on the ground of the State's partnership in the business.¹² Where the State made an advance, granted a subsidy, or administered directly through a manager with an interest, in the proper sense of these expressions, the legal and financial position of the State was made perfectly clear, and it was relatively easy to discuss the clauses arising out of this position. But it was not so with the system of a substantial addition to the price of the goods supplied. If it appeared from a careful study of the circumstances of the business that the State had really entered into partnership with the manufacturer, then, and then only, was it right to draw the legitimate and equitable conclusions from this position.

Such, in my opinion, is the important reserve that should be attached to the proposals contained in the Contract Commission's letter of the 22nd September 1915.

¹² The Commission on Artillery and Munitions Contracts did not fail to draw attention to this danger in its opinion of the 16th November 1915: "It is only in this way [that is to say by avoiding exaggerated estimates of the benefit obtained by the manufacturer from the State's assuming a share in the cost of installation through a substantial increase in prices] that it has been possible to encourage manufacturers and to provoke an increase in the number of tenders, a matter of vital importance to the country. . . . It would be dangerous, from the standpoint of the supreme interests of national defense, to add to this measure [the analysis in the contracts of the unit prices so as to bring out the proportions relating to raw material, to manufacture, and to amortization] irritating conditions calculated to discourage the good will of our manufacturers."

IV. *Law of the 28th September 1915 and participation in profits.*

The law of the 28th September 1915, by §§2, 3, and 4 of Art. 9, laid down an imperative rule, which the administration was directed to bring into force without delay:

“Contracts giving rise to advances shall moreover provide in principle for the subsequent payment of a royalty based on the utility value of the premises and plant retained by the manufacturers, a royalty the rate and duration of which shall be fixed either by agreement or by arbitration in the year that follows the cessation of hostilities. No exception to the above provision shall be made except in virtue of a decree approved in Council of Ministers and countersigned by the Ministers of Finance and War. A decree drawn up in the Council of State shall settle the terms of the model clauses to be inserted for this purpose in the contracts.”

The idea underlying this clause is evident. Every time that the State assumes in one form or another part or the whole of the expense of the installation or extension of manufacturing plant, the administration must stipulate that the manufacturer shall grant a corresponding advantage to the State. It must provide for this advantage *in principle* in the contract, even if all the detailed conditions are not laid down. Further, it must do this only if the premises and plant remain ultimately, during or after the War, of some value to the manufacturer concerned, for the purpose either of use or of sale. This stipulation was perfectly legitimate and very reasonable.¹³

¹³ Exception must however be taken to the drafting of the law, because some of the expressions employed are manifestly incorrect.

(1) §2 of Art. 9 makes the mistake of speaking of the financial participation of the State in the cost of premises and plant as an “advance.”

(2) The text is also in error in describing as a “royalty” (*redvance*) the advantage to be reserved in every case to the State. Evidently this advantage should not and could not in every case be a royalty, that is to say a certain sum of money or a certain quantity of goods to be handed over by the manufacturer to the State, periodically, during a certain number of years. It may be that the interests of the State and of the manufacturer would be better served by some other arrangement; for instance, the State might be given the right to repurchase the business or to resume it free of charge; the manufacturer might have a right of taking it over; the manufacturer might pay a capital sum to the State; he might be required to supply the State with a certain quantity of goods during a certain number of years at a fixed price;

But, in practice, the application of the law met with considerable difficulties. It at once became apparent that contractors were reluctant to incur the risks inherent in the stipulation of certain undefined advantages to be reserved for the State. On the other hand the Council of State, which was charged with the duty of preparing model clauses to be inserted in the contracts, found the task one of great complexity.

CONCLUSION

I. The correctness of the system of advances to home contractors, whether for the purchase of raw materials and the payment of wages or for equipment and machinery, was not open to question and was in fact not questioned. It met an economic need. Everything considered, the system proved satisfactory as a whole. It was in its interpretation by the departments, in the rules laid down, that errors and carelessness occurred, especially at the outset. The departments did not in all cases properly appreciate what the protection of the public interest required of them. They thought that the State was the manufacturer's natural banker; whereas it was his banker only quite exceptionally, and intervened only because the other bankers were unable to lend him money.

II. On the other hand, when contractors asked the State to be their banker, they should have paid for the service rendered by the State as they would have paid for it if rendered by a banker, and offered the security that they could not have refused to a banker. It was the strict duty of the departments to remind contractors of this when they applied for advances. By thus applying the system or there might be a substantial reduction of price for the subsequent orders, etc.

(3) The text of Art. 9 makes the further mistake of *appearing* to put off, until after the War, the payment to the State of the advantages to be stipulated. It was possible, it was even desirable, that the benefit of these advantages should be secured to the State as early as possible, while the War was actually proceeding; for instance, a substantial reduction in the price of supplies during the War.

(4) Art. 9 appears to imply that it is possible in practice to provide in a contract for the "principle" of a royalty, the amount of which was to be determined subsequently; this involved a risk that very few manufacturers were prepared to run.

of advances, the departments would have immediately put an end to what were undeniably abuses.

III. The importance of these, however, must not be exaggerated. The Contracts Commission insisted that the departments should require effective security from the contractors in respect of the advances that these demanded. Applications for advances immediately diminished. The general and rigid stipulation of interest at a rate at least equal to that which the State had to pay to obtain funds to advance, that is $5\frac{3}{4}$ to 6 per cent, a stipulation that was more difficult to get inserted in the contracts, also proved very efficacious.

So much for the advances.

IV. The principle of the State's participation in the cost of equipping factories and works at home employed on orders for the Ministry of War was likewise free from objection. Such participation was indispensable. The method of participation was a matter of greater delicacy, because the participation might take very varied forms.

It was the duty of departments to select the method of participation that entailed the least financial burden on the State. They had also to secure for the State every possible guarantee that this burden was not undertaken uselessly and without benefit to national defense. Finally they had to see that the State did not make a permanent addition to the manufacturer's capital without deriving some advantage therefrom.

By the force of circumstances the rôle of the departments in the solution of all these problems was far more delicate than in connection with advances. It was extremely difficult to lay down, in detailed regulations, an unchangeable procedure to be followed by the administration. The trust that one was obliged to repose in the departments was not in all cases justified by an extreme solicitude on their part for the great public interests that they were called upon to defend.

V. Lastly, a question of public morality was involved. If contractors were entitled to claim a reasonable profit on war supplies, it was quite intolerable that large fortunes should be accumulated at the expense of the taxpayer, and that for certain Frenchmen the War should be, not an ordeal, but a source of excessive gain. It was the duty of the administration, when it made contracts for war supplies, to take jealous precautions against any exploitation of the sacred

needs of the country. But in time of war, it is difficult to make government offices understand that money is of capital importance. They willingly admit it in words, but they often act as though it were quite otherwise.

As a matter of fact, if there were many abuses and much squandering in France, it does not appear that government departments in the other belligerent countries showed themselves more careful of the public moneys.

SECTION VI

ACCOUNTS RELATING TO ADVANCES¹⁴

Originally, where repayable advances were made to manufacturers working for national defense, in virtue of the decree of the 15th July 1915 and of the law of the 28th September 1915 (Art. 9), the expenditure was charged against the budgetary credits of the Ministry of War. But when the advances became more considerable in amount, and seeing that they were repayable, the Government came to the conclusion that this class of expenditure was out of place in the budget. The law of the 27th January 1917 laid down that the advances granted should be carried to a special Treasury account, and defined the conditions of repayment. This law reads as follows:

“Art. 1. Advances for the purpose of creating or extending plant or machinery, allocated in accordance with Art. 9 of the law of the 28th September 1915, may be granted either to the manufacturers with whom the War Department makes contracts or to those who supply the contractors with the power required for carrying out their orders.

“These advances are repayable by deductions from the price of the goods supplied or by installments, on the terms laid down in the contracts.

“In case of installments, the period of repayment shall not extend over more than ten years after the completion of the contract.

“Art. 2. The Minister of Finance is authorized to open a special

¹⁴ Draft budget for 1922 (*Chambre*, 8th July 1921, No. 3068) *Exposé des motifs*, p. 184. Draft budget for 1923 (*Chambre*, 31st March 1922, No. 4220) *Exposé des motifs*, p. 334.

Treasury account entitled 'Repayable advances to various manufacturers for the needs of national defense.'

"Art. 3. There shall be carried to the debit of this account the advances for the creation or extension of plant or machinery that have been made to manufacturers since the 1st January 1915, and those which may hereafter be granted under contracts concluded by the Minister of War or the Minister of Armament and Munitions, in conformity with the terms of Art. 9 of the law of the 28th September 1915 and of Art. 1 of the present law.

"There shall be carried to the credit of the same account the repayments of capital effected by the recipients of the said advances after the 1st January 1915.

"The account is divided into two sections:

"The first relating to advances repayable by deduction from the price of goods supplied.

"The second relating to advances repayable by installments.

"Art. 4. The maximum of the advances granted or to be granted in conformity with Art. 9 of the law of the 28th September 1915 and Art. 1 of the present law shall not exceed the sum of 168,800,000 francs, distributed as follows:

	<i>Francs</i>
Artillery Service	130,000,000
Explosives Service	35,000,000
Air Service	3,500,000
Engineering Service	800,000
	<hr/>
Total	168,800,000

"Art. 5. The account opened in virtue of the above provisions shall be closed at the end of the tenth year from the termination of hostilities."

As has been seen, numerous contracts were concluded with manufacturers, providing for advances repayable either by deduction from warrants issued in payment of goods supplied, or by installments extending over not more than ten years. After the end of the War, no expenditure was charged to this account, as there was no longer any occasion for the system established by the law of the 27th January 1917; the sums to be received each year correspond to the annuities payable under the manufacturers' contracts (6,061,128 francs).

The transactions carried to this account were summed up as follows in the draft budget for 1923:¹⁵

Situation on the 1st January 1922.
(In millions of francs.)

	<i>Excess of expenditure over receipts</i>
Advances repayable by deduction from cost of goods supplied	44.4
Advances repayable by installments	17.2

This statement does not show the exact amount of the advances granted, but only the balance of the account at the 1st January 1922. The *Inventaire* of December 1924 makes no mention of this account.

¹⁵ Budget bill for 1923, *op. cit.*, pp. 318 and 319.

CHAPTER IV

REVISION OF WAR CONTRACTS

SECTION I

THE PROBLEM

It is found on the morrow of all great wars that public officials, who have frequently been recruited for the occasion, have under pressure of the needs of public defense, from inexperience, negligence, or thoughtlessness, made agreements with manufacturers and contractors that are very burdensome to the State. Even when measures have been taken for the supervision of these contracts, the pressure of the needs of the public service has been such as to lead officials to treat money as of quite secondary importance; the supplies, the work, had to be obtained *at any cost*. Manufacturers and contractors have all benefited more or less by this state of things. The less scrupulous contractors have fixed the prices, the rest have profited by them; prices have usually been levelled up rather than levelled down. Hence considerable fortunes have been acquired in a few months. Demoralization has worked like a leaven.

While the war lasts, accusations are not very loud, because the State needs the contractors. But when once the war is ended, when the public is face to face with the formidable debts contracted by the State, then complaints pour in. There is a general hue and cry against the profiteers. Attempts are made to revise these onerous contracts, so as to lighten the burden on the taxpayer and to put an end to the scandal of ill-gotten fortunes.

As a rule, however, the owners of these large fortunes have, by that very fact, sufficient political power to defeat the movements of public opinion. They have the spontaneous support of all those who object to a revision of government contracts for supplies, as constituting a dangerous precedent. And they possess sufficient financial means to exercise pressure on the public authorities and on the press, and to reduce their adversaries to mere manifestations by speech or writing.

It must be admitted that legally the problem is not easy to solve. The point is whether gross under-value (*lésion*) affects the validity

of the agreement. Does under-value affect the validity of an agreement in public law when in French private law under-value has not this effect?

If under-value does affect the validity of an agreement, then contracts concluded during the War and tainted with under-value are irregular. A new law may, in order to facilitate the verification of the regularity of contracts, lay down a special procedure, organize a special jurisdiction, competent to scrutinize the validity of the hundreds of thousands of contracts concluded during the War by the government departments. Such a law, in reality, regulates only *the future*. It concerns only the general and impersonal status or legal situation. It does not alter the character of transactions concluded before the new law was passed; contracts that were irregular from the outset remain irregular; the new law merely provides the means of acting upon this irregularity with greater ease and rapidity.

If, on the contrary, under-value does not affect the validity of agreements in public law, then a new law cannot provide for the revision of contracts. For this would amount to declaring contracts irregular after the event, which were regular, and whose validity was not affected, at the time they were concluded. In the particular case of administrative contracts, the legal difficulty appears even greater, because it is aggravated by a practical consideration: to admit the principle of the revision of the Government's contracts involves casting a suspicion on the public servants who concluded them. For the contracts were signed by the heads of departments concerned only after they had been considered by the administrative staff, and scrutinized by examining committees. Were all these officials then either knaves or fools?

This practical objection has, in reality, no great weight. In war-time, owing to the force of circumstances, certain public services—those which make contracts—are carried on by a chance staff, public servants casually and hurriedly recruited. If selected on account of their technical capacity, these men are drawn from manufacturing and commercial circles; occasionally they continue to make contracts with the State. They are always connected with government contractors and purveyors by ties of friendship, business, or common interests. They find it extremely difficult to defend the public interest with all the zeal desirable. The intervention of certain members of the Parliament, weak or unscrupulous politicians, aggravates the

position. All these undoubted facts weaken the above argument, which is frequently adduced by traders and manufacturers.

Nor is this all. Even if the public servants do everything that their duty requires, war conditions do not always admit of a serious discussion of prices. For prices to be freely debated and agreed upon, two essential conditions are required: (1) the State must be in a position entirely to forego the supply where the price asked is excessive; (2) and it must be in a position to apply to a rival contractor. These two conditions are completely lacking in war-time.

SECTION II

WAR CONTRACTS IN FRANCE

The French Parliament, on its reassembly at the end of December 1914, showed uneasiness as to the manner in which certain contracts were being concluded. In the parliamentary Committees, and less frequently in the tribunes of the Chambers, attention was drawn to a few grave abuses. No one dared to create a scandal, in the interests of public tranquillity and social harmony. Nevertheless, from time to time, some too crying abuse, revolting to the sense of justice, was brought to light. Thus, little by little, the public became convinced that the majority of war contractors had taken advantage of the situation to enrich themselves at the expense of the State.

I

A first step was taken to satisfy public opinion: a heavy tax was imposed in 1916 on exceptional war profits (law of the 1st July 1916). This tax yielded to the Treasury:¹

	<i>Millions of francs</i>
In 1917	192.5
In 1918	521.5
In 1919	614.4
In 1920	2,937.1
In 1921	3,312.9
In 1922	2,066.1
In 1923	1,333.5

But this was not enough, for the tax on excess war profits hit all dealers alike, whether war contractors or not; moreover the tax did

¹ *Inventaire, op. cit.*, pp. 109 *et s.*

not distinguish between the honest contractors and the rest. Nor did it bring to light the mistakes of the government departments.

II

On various occasions, Socialist deputies called for measures of revision. For instance, as early as 1916, M. Mistral, a deputy, demanded a general revision of government contracts. The Government, without denying the existence of abuses, pointed out that it was dangerous to proceed, in the middle of a war, to an inquiry of this character, which might frighten contractors and reduce the output of munitions; moreover that conditions were not propitious in war-time for an impartial examination of the facts. And besides, suitable persons to carry out the investigation were lacking. The French Parliament accordingly resigned itself to ordering an inquiry, by select committees of its members, into particular contracts to which its attention was drawn by certain senators or deputies. At this present time (1925) a committee of the Chamber of Deputies is still sitting to investigate contracts concluded by the Government since the outbreak of the War. Very numerous reports have been drawn up by these committees during and since the War.²

The results of these parliamentary inquiries can evidently not be regarded as equivalent to judicial findings. In an objective study such as this, one can only bring out their general purport. As a rule, the conclusions of these reports are unfavorable both to the government department and to the contractor: they point to carelessness and ignorance on the one side, to dishonesty on the other.

Here, for instance, are some passages taken from a report written in 1922,³ such as frequently recur in documents of this kind: "An

² Instances of these are the reports of M. Paul Meunier (*J. O., Chambre, Doc. parlem. 1919*, pp. 2147 *et s.*); M. Valière (*J. O., Chambre, Doc. 1919*, pp. 2591 *et s.*); M. Pierre Etienne (*J. O., Chambre, Doc. 1919*, pp. 3037 *et s.*); M. Mons (*J. O., Chambre, Doc. 1919*, p. 3031); M. Mistral (*J. O., Chambre, Doc. 1919*, p. 3069); etc. These inquiries are still proceeding. For instance, M. Dupin, deputy, presented on the 30th November 1922 a report on the purchases of wine in Spain in 1916 (*Chambre, Doc. 1922, Session extraordinaire, No. 5163*). Certain reports are mentioned in the *Journal Officiel* by their titles, but are not reproduced; for instance those of M. Chéron, senator, of 5th July 1921, Nos. 533-536. *J. O., Sénat, 1921, Doc. II*, p. 456.

³ Report of M. Louis Dupin, 30th November 1922 (*Chambre, Documents, No. 5163*) (purchase of wine in Spain, Mission T).

examination of the conditions in which the War Department effected purchases . . . in 1916 for the needs of the armies in the field has revealed that at this date, after a year and a half of war, the department's purchasing procedure was not yet thoroughly settled, particularly as regards the application of the principle that there should be a single buyer on behalf of the State, and as regards the selection of the purchasing staff." "It was ascertained that certain agents charged with the inspection of deliveries, S. for instance, were completely incompetent; which leads one to suppose that this particular soldier was assigned to the mission in Spain owing to the exercise of influence on his behalf. After three months' trial, the head of the mission was obliged to ask for his recall. The Supply Department, for the purpose of its purchases abroad, and indeed of its purchases in France, should have begun by collecting all the necessary information. If it had been better informed, it would have entrusted these services to competent persons, and not, as has been found too frequently the case, to an administrative staff whose sole qualification lay in its good intentions." The Committee "regrets that the missions were too frequently the occasion of appointments whose only object was to favor men who were fit for service and to withdraw them from the dangers of the front, although they were totally incompetent for the duties entrusted to them."

It would undoubtedly be an exaggeration to say that all the war contracts are open to this kind of criticism. But the number of questionable transactions was sufficiently large to convince the Parliament, and even the Government, that it was impossible to leave all these abuses, these scandals, unpunished.

SECTION III

THE DRAFT LAW OF 1920 PROVIDING FOR REVISION OF WAR CONTRACTS

The new Chamber of Deputies, elected on the 16th November 1919, proceeded to wind up the War. It thought that the question of the war contracts could be disposed of.

I

On the 24th April 1920, the Government submitted to the Chamber a draft law providing for the revision of these contracts. It was

a measure, everyone said, of public hygiene. The committee of the Chamber to which the draft was submitted reported in its favor. And in a morning sitting, on the 30th July 1920, only a few deputies being present, the Chamber passed, without discussion, one of the most important laws ever submitted to a Parliament, the law for the revision of war contracts. It may be affirmed that from a political, social, economic, and juridical standpoint, few measures could have more serious consequences. As for the particular provisions adopted by the Chamber, they constituted a measure that was at once revolutionary, absurd, and impracticable.

In virtue of Article 1, "Contracts of all kinds concluded between the 24th July 1914 and the 24th October 1919 by the State, the departments,⁴ the communes, and public institutions shall be revised." Likewise all contracts relating to the restoration of the liberated areas and to the liquidation of stocks, if concluded prior to the 24th October 1919.

Purveyors of the administration of every description—the draft law does not refer to works contractors, but these were doubtless also contemplated—must within a month make a declaration to the Ministry of Finance showing the nature of their contracts, the total amount of the business undertaken and of the expenses incurred as a result of these contracts, and the profits realized on the said contracts both by themselves and by intermediaries, whose names and addresses must be supplied by them. In the event of the decease of the purveyors whose declaration is called for, their heirs are required to make the declaration. Brokers or intermediary agents are placed under the same obligation (the draft does not refer to their heirs).

This general rule was subject to a single exception, in respect of small contracts whose total amount did not exceed 100,000, which were not obligatorily subject to revision.

II

The immense field of inquiry opened by this draft law is apparent. In its material aspect, it involved a stupendous task. To examine carefully a single contract takes a considerable time. Now, there were concluded, between the 24th July 1914 and the 24th October 1919,

⁴ In the geographical sense.

[Translator's note.]

hundreds of thousands of contracts. The Chamber decided that all these contracts should be examined individually, by a *rapporteur*, by a Government commissary, by a commission, in order to determine, not whether they were in order, but whether the profit realized exceeded 10 per cent of the amount of the contract, or 10 per cent of the capital invested or embarked in the business. The maximum profit declared legitimate in the case of brokers and intermediaries varied from 1½ per cent to 2 per cent according to the magnitude of the contract. Everything in excess of the maximum profit thus determined could be declared forfeit to the State, the department, or the commune that made the contract.

To carry out this work of revision, one or more commissions were to be set up at the headquarters of each military district, composed of a judge of the Court of Appeal as president, and of officials of the various departments. Members of the Chambers of Commerce and of Agriculture, and workmen members of *Conseils de prud'hommes*,⁵ were to be present at the discussion of each contract and would be at liberty to offer remarks. A commission of appeal, presided over by a judge of the Court of Cassation, and composed of members of the Council of State, of the Court of Cassation, of the *Cour des Comptes*, of the Court of Appeal, etc., was to sit in Paris. All the above would be required to maintain official secrecy.

Finally—and this is not the least important provision—the commissions might require the production of all documents public or private necessary for the revision of the contracts. In particular, the commissions might delegate one or more of their members to inspect the accounts of contractors, intermediaries, sub-contractors, participators, and lenders of funds; the penalty attached was a fine of 100 to 50,000 francs, and imprisonment from 8 days to 2 years. Here were penalties that were vigorous enough!

SECTION IV

PROTESTS OF THE CHAMBERS OF COMMERCE

No sooner had the Chamber of Deputies passed the draft law presented by the Government than the Chambers of Commerce

⁵ The *conseils de prud'hommes* are special elective tribunals composed of employers and workmen for settling trade disputes of a personal character.

[Translator's note.]

showed signs of perturbation. On the 20th October 1920 the Chamber of Commerce of Paris, and on the 8th November the assembly of Presidents of Chambers of Commerce, adopted resolutions protesting against the bill, on the ground of the retroactive and invidious character of the proposed legislation.

I had personally an intimate knowledge of tens of thousands of contracts for supplies and works during the War. It may be asserted that in a very large number of instances the State was not in a position to debate prices. I am far from maintaining that in every contract, throughout the War, without exception, contractors were profiteers and robbers; that would be the rhetoric of a demagogue. Fortunately there were in France during the War many honest contractors; but it must also be recognized that, while hostilities lasted, circumstances did not lend themselves to a proper discussion of prices. For prices to have been freely debated and agreed upon, two essential conditions would have been required: (1) the State should have been in a position to dispense altogether with the supply; (2) it should have been in a position to apply to a rival contractor. Now, these two conditions were completely lacking.

On the one hand, it frequently happened that very important contracts, on very onerous terms, were concluded under conditions that were truly tragic, on the receipt of a telegram from the Commander-in-Chief demanding certain supplies immediately, under pain of a "catastrophe." It is easy to imagine the freedom with which officials discussed prices with the contractors.

On the other hand, everyone knows that the need for munitions of all kinds was so great that there was no competition at all among contractors; manufacturers were hunted out, however ill equipped they might be; money was lent to them to build a factory or buy machinery; raw materials and labor were supplied to them; they were entreated to produce to the utmost, to accept orders even beyond their capacity of output. The country's safety was at stake.

Now it is a well-known economic phenomenon that everyone who has a monopoly naturally tends to raise his price up to the maximum that he can obtain. In other words, there is no limit to monopoly prices.

Numerous contracts were concluded under these conditions. The profits extorted in these circumstances were not legitimate profits, but ill-gotten gains, riches acquired out of the country's misfor-

tunes. From a legal point of view, are these circumstances to be held to have no weight?

For French jurists, the problem of the revision of war contracts raises two questions of great delicacy: that of under-value as affecting the validity of contracts, and that of the non-retrospective effect of laws.⁶

There is no doubt, in fact, that in war-time many contracts are affected by under-value. But this does not settle the question of law: does under-value, in public law, invalidate an agreement? For my own part, I am disposed to admit that it does. The rules of private law do not stand in the way, because, in France, the rules of private law do not necessarily apply to public law: they must be taken in conjunction with the requirements of the proper working of the public services. Now, in war-time, officials are in fact obliged, in order to ensure the proper working of the service of national defense, to conclude contracts without an opportunity of seriously discussing prices and without being able to resist the excessive claims of manufacturers who take an undue advantage of their *de facto* monopoly.

Leaving aside the machinery of the measure voted by the Chamber, what we have to notice is that the Government in proposing the draft law, and the Chamber in passing it, expressed the opinion (1) that under-value in public law, at any rate in time of war, invalidates an agreement; and (2) that the enactment of revision is not a violation of the principle that laws have no retrospective effect.

It does not appear, however, that the Senate shares the opinion of the Government and of the Chamber. The Committee of the Senate charged with the examination of the draft law adopted by the Chamber has not yet come to a decision (1925), in spite of reminders from the Committee of the Chamber of Deputies on war contracts. The latter Committee reported, on the 7th April 1922, in favor of a draft resolution inviting the Government to request the Senate to hasten the vote of the proposed law.⁷ The Senate has constantly offered a passive resistance. It is practically certain that no revision will take place.

⁶ For a development of this question, see G. Jèze, *Les principes généraux du droit administratif*, 3rd ed., I, *La technique juridique*, 1925, pp. 132 et s.

⁷ Report of M. Dupin, 7th April 1922, *Chambre, Documents*, No. 4274.

CHAPTER V

FINANCIAL POWERS ENTRUSTED TO THE GOVERNMENT FOR THE CONDUCT OF THE WAR

IN time of peace, it rests with the Parliament, under French law, to authorize expenditure, or, to use the technical expression, to open credits. Credits are opened only under two fundamental rules: the rule that authority must be given before expenditure is incurred, and the rule of budgetary limitation, in its triple sense: limitation in respect of the purpose of the expenditure (prohibition of expenditure for purposes not provided for in the budget); limitation in respect of the amount of the expenditure (prohibition of expenditure in excess of the credits assigned); and limitation of the period in respect of which the expenditure is authorized (prohibition of the application of credits to expenditure pertaining to other financial years).¹

These principles cannot always be strictly adhered to when financial provision has to be made for the conduct of a war. The legislative process is long; parliamentary control over expenditure can be effective only if it be thorough, minute, and deliberate. In war-time, so great is the urgency of expenditure, so unforeseen its character, that it would be vain to attempt to fix its amount unalterably beforehand, or to define its precise purpose. A wide liberty of action must be allowed to the Government. This is a necessity against which the most express prohibitions would prove absolutely powerless. This being so, it becomes expedient to enlarge the powers of the Government as regards expenditure rendered necessary by the war.

From a political point of view, however, it is advisable that the Parliament should not be altogether deprived of its power of scrutinizing and authorizing expenditure. It must retain its claim to the last word as regards the conduct of the war, its power of upsetting a Government that it considers injurious to the national interests.

These two requirements have to be reconciled: the necessities of warfare, and the maintenance of the fundamental principle of the government of the country by the country, of the sovereign control

¹ G. Jèze, *Cours élémentaire de Science des finances*, 6th edition, 1922, *Théorie générale du budget*, pp. 110 et s.

of the Parliament over the conduct of the war. The attempt to reconcile them was pursued from the very declaration of war.

The Government applied to the Parliament for very large powers in the matter of incurring expenditure during the War, even without the previous authority of the Chambers, and without being bound by the rule of budgetary limitation. This was the object of the law of the 5th August 1914, which modified the law of the 14th December 1879 regarding the grant of supplementary and extraordinary credits by decree for the purpose of national defense.

At the end of December 1914, the Government obtained from the Chamber, in the form of provisional credits of six-twelfths for the financial year 1915, authority to spend a lump sum of more than 9 billions of francs. At the end of June 1915, authority was given, in the form of three further provisional twelfths for the year 1915, to spend a lump sum of 5 to 6 billions of francs.

From that time, this became the current practice. Every three months, the Chambers were called upon to vote to the Government lump sum credits called provisional twelfths.

This was an innovation. In 1870-1871, the situation had been quite different. The Government of National Defense, dictatorial in character, had gathered all power into its hands. There was no Parliament. There had accordingly been no occasion to determine the respective competence of the Government and the Chambers in the financial conduct of the war.²

In 1914-1915 the political conditions were not the same as in 1870. The Government and the Chambers now had clearly defined provinces: the constitutional laws of 1875, the law of the 14th December 1879, a long tradition, and lastly the democratic spirit, gave the preponderance in finance to the Parliament. But the needs of war are such that the strict and entire observance of the general principles was manifestly impossible. These had accordingly to be modified and adapted to the circumstances.

SECTION I

EXTRA-LEGAL PROCEDURE IN TIME OF CRISIS

It must moreover be recognized that prior to this, even in peace-

² Cf., Haristoy, *Les opérations financières de la France pendant la guerre de 1870-1871*, in the *Revue de science et de législation financières*, 1914, pp. 389 et s.

time, Governments, while asserting that the last word in financial matters rested with the Parliament and that nothing could be done without the authority of the Chambers, had sometimes shown no great respect for the rules requiring the prior authorization of expenditure and imposing the limitation of budgetary credits. Instances had occurred where Governments had deliberately overridden the fundamental principles of French political organization when they thought that by doing so they would be serving the country's interests. Indeed, the instances are so numerous that a doctrine might almost be deduced from them and that it might be said that in France, in times of crisis, the Government incurs additional expenditure without applying to Parliament for credits in advance,³ and without considering itself bound by the rule of the limitation of credits. The most it did was to ask, before incurring the expenditure, or perhaps only before defraying it, the assent of the Budget Committee of the Chamber, or of the Finance Committee of the Senate, or of the Presidents and *Rapporteurs Généraux* of these committees. This is what was called a "clandestine opening of credits." When once the crisis was over, and the Government could publish the transaction without danger to national security, Ministers explained their proceedings and asked the Chambers for a Bill of Indemnity. This is what happened in 1898 on the occasion of the Fashoda incident, and in 1905-1906, at the time of the Morocco crisis.⁴

On the 5th February 1915, the great conservative journal, *Le Temps*, claimed credit for certain politicians, on the ground that they had not only dared to incur, without the previous authority of the Chambers, an expenditure of 30 millions of francs to expedite the manufacture of the field gun of 75 mm., but had also induced the Chambers to open a credit retrospectively without making known its purpose.⁵

What calls for criticism is not the fact of incurring expenditure without credits and in excess of credits in times of very serious na-

³ This doctrine is now explicitly confirmed by a law of 1922.

⁴ See, as regards these incidents, Jèze, *Le Budget*, 1910, pp. 434 *et s.*; and in the *Revue de science et de législation financières*, 1906, pp. 21 *et s.*; 1907, pp. 1 *et s.*; 1913, pp. 126 *et s.*

⁵ *Le Temps* of 6th February 1915, p. 1, article headed "*Ceux à qui l'on doit le 75.*" Cf., *Illustration*, 10th February 1915; G. Jèze, *Les Finances de Guerre de France*, 1915, I, pp. 86 *et s.*

tional crisis: these are regrettable, but sometimes inevitable, illegalities, to which a Government must resign itself. What is inadmissible is that Ministers—even with the most creditable intentions—should follow up these illegalities with pretenses, concealments, and manoeuvres, designed to impose upon the confidence of the political assemblies.

The Ministers who were in power at the time of the declaration of war thoroughly understood this. They refused to accept the responsibility for incurring war expenditure in defiance of all budgetary principles. They requested the Parliament to modify these principles, to introduce a new system adapted to the new conditions that the War had brought about. The law of the 5th August 1914 had this object in view.

SECTION II

THE LAW OF 5TH AUGUST 1914: SURRENDER BY THE PARLIAMENT OF PART OF ITS FINANCIAL POWERS

Immediately on the declaration of war, the Government asked Parliament to relax the somewhat stringent rules regarding the previous authorization of expenditure and the limitation of budgetary credits: these rules, good in time of peace are, it declared, manifestly inapplicable in war-time.⁶

In order to have its hands free to incur expenditure for the conduct of military operations, the Government obtained the vote of the law of the 5th August 1914, which modified the law of the 14th December 1879 on the opening of supplementary and extraordinary credits by decree for the needs of national defense. Here are the terms of it:

“The following shall be added to Article 5 of the law of the 14th December 1879, on the opening of supplementary and extraordinary credits by decree while the Chambers are prorogued:

“Nevertheless, in case of mobilization and until the cessation of hostilities, the supplementary and extraordinary credits required

⁶ An analogous solution is to be seen in the British system of Votes of Credit. See G. Jèze, *Les votes de crédit*, in the *Revue de science et de législation financières*, 1915, pp. 27 et s. Compare also an analogous solution adopted by Italy when she declared war on Austria, the law of “plenary powers” (May 1915); and also by Switzerland (law of 3rd August 1914, *Bulletin de statistique et de législation comparée*, January 1915, pp. 215 et s.).

for the purposes of national defense, even if they pertain to services other than those mentioned in the first paragraph of the present article, or if they are intended for the creation of a new service, may, in the absence of the Chambers, be opened by decrees adopted in Council of State, after having been discussed and approved in Council of Ministers.

"These decrees shall indicate the ways and means assigned to the credits asked for, and, if necessary, shall authorize the creation and realization of the extraordinary sources of revenue required. They must be submitted to the sanction of the legislative power within fifteen days of the next meeting of the Chambers."

During six months, this law served the Government as the basis for the opening of credits, for the incurring of expenditure, and for the creation and realization of extraordinary sources of revenue.

And yet this law was unconstitutional and, from a juridical point of view, non-existent. It was not that it embodied a principle contrary to the Constitution. It was simply that it had not been adopted by the Parliament in accordance with constitutional procedure. So that it was actually non-existent juridically. Owing to the haste with which, on the 4th August 1914, the Chambers voted the war laws, a serious error of procedure occurred. The text of the law voted by the Senate was not the same as that adopted by the Chamber of Deputies; they differed in three essential points. The text promulgated by the President of the Republic was that which had been approved by the Chamber of Deputies. The text published on the 5th August 1914 had thus been voted by only one of the two Chambers.⁷ Now it is an elementary principle, unquestionable and unquestioned, that a law is constitutionally regular only if it has been adopted in exactly *the same terms* by both Chambers, and if the text approved by the two Chambers has been promulgated without modification by the President of the Republic.

SECTION III

EXTENSIVE POWERS CONFERRED ON THE GOVERNMENT. COMPARISON WITH BRITISH VOTES OF CREDIT

Be this as it may, the law of the 5th August 1914 was applied as if it had been voted constitutionally. What exactly was the division

⁷ For proof of this irregularity, see G. Jèze, *Les Finances de Guerre de la France*, I, 1915, pp. 92 et s.

of authority in financial matters between the Government and the Chambers that this law effected?

I

At first sight, this law appeared to sanction the surrender into the hands of the executive of the Parliament's financial powers in the matter of public expenditure.

(1) In case of mobilization, the Government was empowered to open, on its sole authority, without the previous concurrence of Parliament and without the budgetary limitations fixed by the Chambers, all the credits required for the purposes of national defense.

(2) This power was granted to it in the widest and most general terms.

(a) The Government might open credits for an indefinite amount. The law says: "the credits required for the purposes of national defense." We have here a very important difference from the British *vote of credit*, which is the opening of a lump sum credit of defined amount.

(b) Not only was the power indefinite as regards the amount of the credit, but it was also indefinite, in some sort, as regards the object of the credit: it had to concern expenditure "required for the purposes of national defense," but that was sufficient. It will be observed that the law does not say "required for the conduct of military operations." "The purposes of national defense" is an extremely wide expression, which covers military expenditure properly so called, but also assistance to the families of the men mobilized, assistance to refugees, loans to allied Powers, expenditure on the supply of food to the civilian population, etc.

(c) The power was granted in regard not only to *supplementary* expenditure, in the technical sense of the term, that is to say additional expenditure on all the purposes or services provided for in the budget, whether by fixed or by estimated credits, but also to *extraordinary* expenditure in the technical sense, that is to say expenditure on purposes and services not provided for in the budget, whether new expenditure paid and done with, or new services of a lasting or permanent character.

(3) Finally, and this is a characteristic feature of the system, this power was enjoyed as of right. The Government was not re-

quired to make application for it to the Chambers. It was conferred by a general and permanent law. Herein again it differs from the British vote of credit: the latter is a particular authority to expend a certain sum, granted from time to time to the Government by the House of Commons; once the vote of credit exhausted, the Government must obtain a fresh vote of credit from the House of Commons. The difference lies therefore in the fact that the vote of credit system obliges the British Government, at longer or shorter intervals according to the magnitude of the sums it is authorized to spend, to apply to the House of Commons for credits.

The French law of the 5th August 1914 sanctioned a totally different system. From the moment of mobilization, while the Chambers were not sitting, the unlimited power above described belonged as of right to the Government, and had to be exercised by it; there was no occasion to ask Parliament for it.

At first sight, this appears a dictatorial and excessive power. It is completely out of harmony with the spirit and the letter of the law of 1879, in which the text of the 5th August 1914 was inserted. Indeed, the incorporation of this text in the law of 1879 was not a very happy idea; for, historically, the law of 1879 was essentially a measure dictated by distrust of the executive;⁸ and here we have a provision implying confidence in the executive inserted at the end of an article that is notoriously hostile thereto.

This anomaly is explained by the circumstances in which the law of 1914 was voted. Something had to be improvised; the work was hurriedly done and for the best; for lack of time a very simple draft was prepared. As the law relating to supplementary credits was that of 1879 a clause was added to that law without inquiry whether the whole would be coherent or not.

II

Moreover, we must not overstate the case. The law of the 5th August 1914 placed certain limitations on the power of the Government, some of them very real, others purely formal.

(1) A very important limitation was that the Government was

⁸ On this point see G. Jèze, *Le Budget*, 1910, pp. 428 *et s.*; G. Jèze, *Cours de Science des finances*, 6th ed., 1922, *Théorie générale du budget*, pp. 151 *et s.*

empowered to open only *supplementary or extraordinary* credits, that is to say, additional credits. Additional credits involve the assumption that there already exist principal credits allocated by the Parliament. Accordingly, in December 1914 when the Government still showed great distrust of the Parliament, it would have been not only contrary to the spirit of the Constitution, but also contrary to the actual letter of the law of the 5th August 1914, to begin the financial year 1915 without applying to the Chambers and obtaining *general credits* from them. Parliamentary credits were required for expenditure, even additional expenditure, other than that rendered necessary by the defense of the country. Moreover, even for the purpose of expenditure on national defense, the law of 1914 empowered the Government to open only additional credits. For the Government to have opened original credits, even restricted to national defense services, would have been an absolutely revolutionary step. To put it more simply, the law of 1914 did not preclude the Government from summoning the Parliament before the end of the year 1914.⁹ The Government finally accepted this view. After some hesitation, quite at the end of December 1914 (22nd December), it applied to the Parliament for provisional credits for six months. This was the indispensable preliminary to the subsequent opening by the Government of additional credits for the needs of national defense.

By the same process of reasoning it follows that, as the Parliament had voted in December 1914 not an annual budget, but provisional credits for six months, the grounds for the exercise of the power conferred on the Government by the law of the 5th August 1914 would again have disappeared at the expiration of the first six months of the year 1915, had not the Parliament voted three further provisional twelfths at the end of June 1915. The same situation recurred at the end of September 1915.

These facts are of the highest political importance. They involve the affirmation of the supreme right of the Parliament to say the last word in the matter of the conduct of the War, and to assert its will by the refusal of credits or, more accurately, by the threat of the refusal of credits.

(2) A further very important restriction—undoubtedly one of

⁹ The Constitution itself required that it should be summoned on the second Tuesday of January 1915.

the most important—is that the Government's power was suspended while the Chambers were sitting. The terms of the law are clear: "the credits . . . may, in the absence of the Chambers, be opened by decrees . . ." The absence of the Chambers signifies the regular closure of the session of the Chambers by the Government, and not the temporary adjournment of the sittings by the Chambers themselves.

The restrictive interpretation is that which was adopted by the Government. And thus the law of the 5th August 1914, which juridically had no existence, ceased to be applied after the end of December 1914. For the limitation introduced by the words "in the absence of the Chambers" had a very curious result.

The Government, after having mistrusted the Parliament down to the end of December 1914, repeatedly declared that it would not close the parliamentary session, and that it desired the constant co-operation of the Chambers. Thereafter sittings were merely interrupted: there were voluntary adjournments, but no prorogation by decree. As a consequence, the law of 1914 became inapplicable.

The work of administration was not hampered thereby. The Government applied for and obtained large provisional credits, based on liberal estimates. The Parliament understood that the control of the Chambers, under war conditions, was necessarily restricted, and that the discussion of demands for credits must in consequence be very brief. At the end of 1915 the law of the 5th August 1914 was repealed. Its unconstitutional character had at last been noticed. But an open avowal of the irregularity appeared dangerous: it was thought preferable to declare that as the permanency of the Parliament was now assured, the law of 1914 had become useless. However this may be, on the 30th November 1915, the law of 1914 was repealed without discussion.¹⁰

SECTION IV

APPLICATION OF THE LAW OF 1914

From the time of the declaration of war until the end of 1914, a large use was made of the law of the 5th August 1914.

¹⁰ See G. Jèze, *Revue de science et de législation financières*, 1915, p. 722. Chamber, sitting of 15th October 1915; Senate, 25th November 1915 (*J. O., Débats*, pp. 616 et s.).

I

During the first five months of the War, from early August until the 22nd December 1914, the credits opened by decree¹¹ under the head of General Budget¹² and submitted to Parliament to be regularized, amounted in all to a sum of 1,866,443,001 francs.¹³

When the Chambers met on the 22nd December 1914, the Government submitted a draft law to regularize the decrees under the head of General Budget and Subsidiary Budgets. The law was adopted by the Chambers without discussion. The Senate did not give its sanction until the end of March 1915, so that the law regularizing the decrees approved in Council of State between August and December 1914 is dated the 29th March 1915.

The procedure adopted on this occasion was remarkable. The Government refused to give information in public, and declared that it would make a statement to the Budget Committee and to the Finance Committee. Certain deputies asked that all members of the Chamber might be allowed to attend the meeting of the Budget Committee at which the Government was to be heard. This proposal, which was opposed by the Government, was not adopted. The information was furnished only to the two Committees. The *Rapporteur* of the Budget Committee of the Chamber of Deputies stated that the members of the Committee were satisfied, and that the Government had supplied the Committee with all the explanations and proofs required.¹⁴

From the time that the Chambers met, on the second Tuesday in January 1915, the Government made no further use of the extraordinary powers conferred by the law of the 5th August 1914. Thus, for instance, the law of the 29th June 1915, concerning the

¹¹ See the details in G. Jèze, *Les Finances de Guerre de la France*, I, 1915, pp. 109 *et s.*

¹² Credits were also opened under the head of the Subsidiary Budgets.

¹³ The accuracy that records the odd franc will be noted with admiration, as a triumph of bureaucracy!

¹⁴ Report of M. A. Mélin, 22nd December 1914, No. 438, p. 4: "We have asked to be furnished with all the information necessary to justify the credits. The Ministers of War and Marine have been heard by the Committee. The right of scrutiny has thus been exercised *so far as circumstances permit*. The Chamber will understand that we cannot, in the middle of a war, furnish detailed information, in a public document, in respect of credits for national defense."

opening and cancellation of credits for the financial year 1914 under the head of General Budget¹⁵ mentions no credit opened by the Government requiring ratification. Similarly, it was by means of a draft law (No. 920) submitted to the Chambers that steps were taken to open credits for the financial year 1915 under the head of General Budget supplementary to the provisional credits granted for the first six months of the said year. M. Métin's report on behalf of the Budget Committee, dated 17th June 1915,¹⁶ mentions no exercise of the financial powers conferred by the law of the 5th August 1914.

II

The budget of 1914, which had been voted by the Chambers on the 15th July 1914, was no longer applicable as it stood after the German Empire had declared war on France. A peace budget is manifestly unsuited to a time when a great national war imperils the very existence of the nation. A life and death struggle disturbs a country too deeply to allow the public services to work normally and expenditure to proceed as in peace-time. A radical alteration of the budget of 1914 was therefore inevitable.

In proposing the law of the 5th August 1914, the Government had no doubt asked for wide powers of modifying the budget of 1914, but only in respect of the increase of credits for expenses already foreseen, or of the opening of credits for new services. This exceptional law could not be interpreted as empowering the Government completely to upset, without parliamentary concurrence, the general budget voted by the Chambers.

In spite of this, the Government unhesitatingly made the alterations that appeared indispensable, and did so moreover without claiming to exercise the powers conferred by the law of the 5th August 1914. Having, besides, excellent grounds for the course it took, the Government did not think it expedient to convoke the Chambers so as to have their coöperation in making the necessary changes. It carried them out itself, *extra legem, contra legem*.¹⁷ In its anxiety to have a free hand, not to be disturbed in the task of

¹⁵ *J. O.*, 30th June 1915, p. 4405.

¹⁶ *Chambre, Documents*, No. 1021.

¹⁷ See the report in this sense of M. Aimond, senator, 18th March 1915, No. 102, pp. 35 *et s.*

national defense by the harassing work of parliamentary sittings, it even prorogued the Chambers.¹⁸ It did not hesitate to assume the heaviest moral and political responsibility that can rest on a Government in a free democracy: that of governing outside the law; of exercising powers that the Constitution reserves for the Parliament, with the intention of subsequently obtaining relief from its responsibility by means of amnesties and bills of indemnity. In similar circumstances, the British Government acted differently. The House of Commons continued to sit, to control the Government, to exercise its financial powers.

Be this as it may, the French Government, of its sole authority, exceeding its legal powers, modified the budget of 1914, as it had been adopted by the Chambers.¹⁹

It may be added that the Parliament, by a law of ratification (of the 29th March 1915, Art. 2), rectified these irregularities.

III

At the end of December 1914, the Government resigned itself to the necessity of summoning the Chambers, in order to obtain general credits and authority to collect the taxes for the year 1915. It drew up a war budget for six months, and asked the Chambers to pass it with the utmost speed, as a vote of credit (*crédit de confiance*). Instead of calling it by these names, it preferred to present it to Parliament under the guise of a "draft law providing for (1) the

¹⁸ It is by no means certain that the action of the Government on this occasion was constitutional, legal, or even simply correct. The Government declared the closure of the extraordinary session opened on the 4th August 1914 by the mere publication of a decree in the *Journal Officiel*, without reading it to the Chambers, taking advantage of the adjournment of the sittings *spontaneously* decided on by the Chamber and the Senate, and that in spite of the promises given, of the invitation to deputies and senators to come to Bordeaux to collaborate with the Government. Moreover, the law of the 3rd April 1878 was interpreted in a very questionable manner. When a state of siege has been proclaimed, is the Government entitled to prorogue the Chambers? Does not the law of 1878 assume that the Chambers will remain in session during the whole period of the state of siege, in order to control the Government? Cf. on this point the article by Prof. Barthélemy in the *Revue du Droit public*, 1915, pp. 134 *et s.*

¹⁹ For the details, see G. Jèze, *Les Finances de Guerre de la France*, I, 1915, pp. 113 *et s.*

opening of provisional credits applicable to the first six months of 1915 and (2) authority to collect the taxes and public revenues during the same period." This title was incorrect: it employed a formula which, in French financial technique, has a precise signification. To begin with, one of the essential purposes of "provisional twelfths" is to allow the Chambers time to complete the discussion and the work of the general budget: "provisional twelfths" are granted for a very short period, such as one or two months. But this was not here the case: at the end of 1914 the budget of 1915 was not under discussion or examination, nor even in preparation; and the Government was asking for six twelfths all at once, although the Chambers were just beginning an ordinary session. In the second place, another essential object of "provisional twelfths" is the maintenance of the "*status quo*." But the law of December 1914 granting provisional credits maintained the *status quo* in respect neither of expenditure nor of receipts. Finally, whereas provisional twelfths provide a lump sum credit, without division under headings, the Government, when putting forward its draft law, presented at the same time a detailed distribution of the credits under headings, though it warned the Chambers that this distribution had no legal force.

In reality, the Government's proposal, which became the law of the 26th December 1914 and which served as a model during the remainder of the War, was a real *war budget for six months*, as regards not only military expenditure but other expenditure as well.

The French method differs accordingly very clearly from the British method. In England, the Government presented ordinary estimates in respect of expenditure other than war expenditure. It was only in respect of war expenditure (military and other) that it resorted to the procedure of the vote of credit, that is to say of a lump sum credit, sufficient to permit the Government to finance the War during a certain number of months, the Treasury distributing this credit according to what it considered the public interest.²⁰ And the British Government even thought it possible, in November 1914, to maintain the peace-time military credits, treating the votes of credit as available only for additional expenditure. However, it became apparent that this procedure was not, in practice, adapted to

²⁰ See G. Jèze, *Les Finances de Guerre de l'Angleterre*, *Revue de science et de législation financières*, 1915, pp. 27 et s.

the conditions of the war then in progress, and it was decided in February 1915 to dispense with the ordinary estimates for military and war expenditure and to have recourse solely to votes of credit.²¹

In France, the Government asked for a general vote of credit, for all public expenditure, civil and military. And it was right to do so. The War, in France, had completely upset all the departments of government. It was a life and death struggle, which arrested the normal working of the public services, even such as were of a non-military character. The War affected these directly and acutely, but it was impossible to say beforehand what its effect would be. No genuine budget could therefore be drawn up, even in respect of non-military expenditure. This being so, the preparation of a budget that had no relation to actual facts would have been a meaningless process, the deferential observance of a rule, essential and fundamental no doubt, and indispensable to the good management of the public finances, but a rule that assumes, as a condition of its application, the possibility of foreseeing and drawing up, with the concurrence of the Chambers, an exact program of policy. But the War was upsetting all forecasts, whether in respect of its duration, of the expenditure that it would involve, or of its effect on public services of all kinds. One of its necessary consequences was to reduce the field of action of the Chambers and to enlarge that of the Government. To attempt in these conditions to draw up an annual budget properly so called would have been useless; and, in politics and finance, what is useless is bad. The Government was therefore wise in disregarding the advice that was given to it in certain quarters, and in adopting the lump sum vote of credit for all the public services, whether military or not.

This then is the first characteristic of the law of the 26th December 1914. It granted the Government a lump sum credit.

IV

A second characteristic is the very much reduced share of the Chambers in the preparation of this war budget. In spite of the magnitude of the credits granted, in spite of their political significance, the Chambers collaborated no further than if it had been a case of provisional credits properly so called. This is a remarkable

²¹ For the details of this procedure, see *op. cit.*, 1915, pp. 380 *et s.*

fact. In peace-time the budget in France is in very large measure the work of the Chambers themselves; the influence of the Budget and Finance Committees and the personal action of deputies and senators have considerable weight; the right of amendment is largely exercised, indeed to so excessive a degree that an attempt has had to be made to limit it, to regulate it so as to keep it within bounds.²²

It was not so with the first war budget. The Government asked the Chambers not to amend the Government's proposals. And the Chambers were careful to decline any responsibility, and to leave this responsibility entirely with the Government. M. Aimond, senator, laid stress on this point in his report.²³

In what manner then did the Parliament understand and exercise its power of financial control over the war budgets presented by the Government?

(1) In a report submitted on the 22nd December 1914 on behalf of the Budget Committee, M. Métin, deputy, explained as follows the method adopted by the Committee of the Chamber of Deputies in its examination of the proposal for provisional twelfths:²⁴ "It would be impossible to furnish in war-time, in a document destined for publication, details regarding the credits intended for national defense. We ask to be allowed to confine ourselves to stating that the right of scrutiny has been exercised by your Budget Committee. The Sub-Committee appointed by it to supervise the employment of the military credits, which included among its members the President, the *Rapporteur Général*, and the *Rapporteur* of the budget of the Ministry of War, made a personal investigation of the several war services; it received all the information that it asked for; it placed this information at the disposal of the Committee, after having prepared and submitted an analysis of it.

"The report on the military situation presented to the Committee by its President, who had been charged with an inquiry into the state of the military armament and stores, was submitted to the Committee and approved by it.

"Further, all necessary information was asked for and obtained from the Ministry of Marine.

²² See G. Jèze, *Le Budget*, 1910, pp. 207 *et s.*; G. Jèze, *Cours de Science des finances*, 6th ed., 1922, *Théorie générale du budget*, pp. 65 *et s.*

²³ Report No. 480, pp. 11 and 12.

²⁴ Report of 22nd December 1914, pp. 3 and 4.

"Finally the Ministers of War and Marine were heard by the Committee and replied to the questions of its members."

Was there not some exaggeration in the above statement? Could a budget of this magnitude have been seriously examined in a few days? Were not these assertions, made to the Chamber of Deputies and to the country, unduly optimistic?

(2) In this respect, the report presented on behalf of the Finance Committee of the Senate appears more in accord with probability.²⁵ M. Aimond, senator, explained as follows what could be and what should be the attitude of the Senate in view of the Government's demand:

(a) In reality, said M. Aimond, it is not a budget properly so called that the Senate is invited to pass: it is asked to grant a vote of credit, under the form of a lump sum credit of several billions of francs.

(b) The Senate has under present conditions neither the time nor the facilities for a minute scrutiny of this demand; it must trust the Government and reserve the exercise of its right of scrutiny for a later date; it will exercise it as applications are made for supplementary credits. For the moment, the Senate can only address certain questions to Ministers, and obtain explanations on certain points of exceptional importance.

A final observation is called for in regard to votes of credit. The supplementary or extraordinary credits additional to these votes of credit assumed a special *political* character, which became increasingly pronounced as the Chambers asserted more and more their right of control over the Government and succeeded in convincing the country of the utility and necessity of this control. Instead of comprising all the credits required for the conduct of all the public departments in the lump sum vote of credit (provisional twelfths), the Government adopted the habit of detaching certain credits, in respect of which parliamentary sanction had to be obtained separately after thorough investigation: as a result many supplementary credits were presented and voted. A certain number of these separate applications might have been avoided as the lump sum vote of credit was sufficient to cover the expenditure involved and the rule of budgetary limitation had been waived. The credits supplementary to

²⁵ 23rd December 1914, No. 480.

the provisional credits assumed a clearly political character, which betokened the respect shown by the Government for the Chambers' financial powers.²⁶

The prerogative of the Parliament, which the Government had set aside so cavalierly during the first five months of the War was no longer challenged. The Government itself recognized and proclaimed, on many occasions, the advantage, nay the necessity, of the coöperation of the Chambers, which no sincere democrat should ever have questioned.

V

When the Government required further credits in June and September 1915, it followed the precedent set up by the law of the 26th December 1914, but with certain modifications imposed by the force of circumstances. The increase in the rate of expenditure was such that not only could no final budget be drawn up in June 1915, but, so far as the war expenditure was concerned, a period of six months appeared too long to admit of accurate estimates. The War had such unforeseen financial consequences that three months seemed the longest period for which estimates could be prepared, and, even so, great accuracy was not possible. A declaration in this sense was made on the 16th September 1915 by the Minister, in the explanatory statement relating to the proposed twelfths for the fourth quarter of 1915.

The precedent was established, and held good throughout the War. The budgetary procedure was reverted to only in 1920 and 1921.

VI

When it was seen that the War was lasting longer than had been at first expected, parliamentary control became more active. This control manifested itself, to begin with, in a somewhat more extended use of limited budgetary credits, in the form of supple-

²⁶ See, in this connection, the explanatory statement of the 3rd June 1915 (draft law providing for the opening of provisional credits for the third quarter of 1915): "We have excluded new services and extensions of existing services that have been reported to us as indispensable by certain departments, with a view to submitting them shortly in a special proposal and to reserving in this way your full right of control."

mentary credits specially added to the provisional credits; the political character of these credits became more marked. The Government spontaneously excluded, from the lump sum votes of credit, the credits relating to expenditure involved by the creation or extension of certain services. It did so "in order to reserve the Parliament's full right of control."²⁷ Special proposals were submitted in respect of these credits.

The more active control of the Chambers was further displayed in the more energetic intervention of the parliamentary committees, and also—though to a less extent—in the rudiments of a general discussion in public. The Senate even showed much firmness in claiming its financial rights,²⁸ and the Finance Committee drew attention to the good results that its control had yielded. All these points were very clearly explained to the Senate, on the 29th June 1915, by M. Aimond, *Rapporteur Général* of the Finance Committee:²⁹ "Gentlemen: at the request of a very large number of our colleagues, the Finance Committee is resuming the procedure that prevailed formerly in the matter of financial discussion. Its *Rapporteur Général* is accordingly about to state, as briefly as possible, the principal observations that the Committee thinks it its duty to submit to you in connection with the credits which you are asked to grant." In another part of his speech,³⁰ M. Aimond laid stress both on "the recognition by the Government of the Chambers' right of control" and on "the predominant part played by the Committees" in exercising financial control: "By a tacit agreement we have decided that the right of financial control which belongs to you shall henceforth be exercised not at the tribune of the Senate but in the committees."³¹ It is thought in some quarters that even this reduced control is superfluous and should be dispensed with. . . . As for the Finance Committee, for which alone I am entitled to

²⁷ Explanatory statement of 3rd June and of 16th September 1915.

²⁸ *Rapport, Sénat*, June 1915, No. 199, pp. 4 *et s.*

²⁹ *J. O., Sénat, Débats*, p. 318.

³⁰ *J. O., Sénat, Débats*, p. 321.

³¹ See also the report of M. Milliès-Lacroix, senator, inserted in M. Aimond's report, 3rd June 1915 (No. 199, p. 9): "It is in this spirit [of economy] that your Committee examines the credits that you are asked to grant, and that it exercises its right of control, which, though not published in detail, is none the less frequently efficacious."

speak, I must say that for a long time past it has given the Government valuable assistance. It exercises to begin with a *preventive control*. It elaborates and recasts, so to speak, the draft laws that come before you, before they are submitted to the Senate. It also exercises its control in another manner. The Hon. M. Ribot said yesterday in the Chamber of Deputies: "There is expenditure that can be reduced, and it is my duty to say so in this place. In addition to the inevitable military expenditure which must be sanctioned, there is other expenditure that is proceeding on too liberal a scale. When one lives almost entirely on loans, one is led to think that there are no limits and that one may spend without reckoning. It is the general attitude that requires to be altered. The military commissaries ought to get into their heads the need for economy." Why did a man so circumspect, so well-informed as the Minister utter this warning from the tribune? Because he was aware of the conclusions of the Finance Committee with regard to a large number of items of expenditure which we severely scrutinized. It follows, as you see, that the control which some persons criticize is a necessary control."

The activity of the Budget and Finance Committees is revealed in the reports of the Committees' general and special *Rapporteurs*. These make instructive reading. And yet all the reports were not published, for reasons of national safety.

VII

There were, however, complaints in the Chamber of Deputies and in the Senate regarding the unwillingness of the Government offices to reply to the questions put by the parliamentary committees. The Finance Committee of the Senate frequently gave voice to complaints: "Your Finance Committee," wrote M. Milliès-Lacroix in a report of the 3rd June 1915 (pp. 10 *et s.*),³² "is busy studying the manner in which contracts are made; it has already submitted to the Minister of War the many observations suggested by its scrutiny of these documents, particularly as regards the supply of muni-

³² Inserted in M. Aimond's report, 3rd June 1915, No. 199. See also the report of M. Milliès-Lacroix of the 18th March 1915, inserted in M. Aimond's second report, 18th March 1915, No. 102, p. 26: "We have been impeded by the excessive delay shown by the administration in producing documents for which we have called. We are still to-day awaiting replies to a number of questions addressed to it . . ."

tions. It is energetically pursuing its investigation of the war services as a whole; but its work proceeds slowly, in consequence of the excessive slowness shown by the departments in replying to the questions and requests for information put forward by the *Rapporteur Général*. We have already complained of these delays in our report No. 102; but they continue, as if the departments were calmly carrying out a deliberate system. These requests for information, which date from last January, are still unanswered, in spite of numerous reminders. Thus we are still without information, notably in regard to the contracts for wheat, for preserved meat, for dried vegetables, for the tanning of hides of oxen killed for army food, for textiles and clothing, etc. The services lose, instead of gaining, by entrenching themselves in this indolence. Their attitude tends to produce a feeling of distrust in the minds of the parliamentary committees; the latter, in spite of their friendly disposition, will inevitably be led to infer from this taciturnity that things are being kept back from them which the services have an interest in concealing. After having addressed ourselves to the Minister of War, we now appeal to the Government. . . . It is not too much to ask that the Finance Committee should be furnished with all the facilities that it asks for, for the strict accomplishment of its task."

We may also quote the complaint voiced by M. Aimond, on behalf of the Finance Committee of the Senate, in his report of the 25th June 1915:³³ "The Government thus has before it the result of a scrutiny that we carry out under difficult conditions, owing to the resistance of certain offices and to our anxiety to do nothing that shall be prejudicial to national defense; this means that we are relieved of responsibility and that we have done all we could to prevent expenditure the necessity for which was not evident."

A sense of their duty of control and of their responsibility to the country led the Budget and Finance Committees to record these energetic protests against conduct on the part of the administration which revealed an inadequate sense of the financial powers of the Parliament. This is significant of the change that came over the relative strength of the Government and of the Chambers from January 1915 onwards. Attention should be drawn in this connection to the report presented on behalf of the Finance Committee of the

³³ No. 226, p. 12.

Senate by M. Milliès-Lacroix, with reference to the supply of metal caps and of a steel helmet, with which it was proposed to equip the infantry;³⁴ "The Budget Committee of the Chamber of Deputies was perturbed," wrote M. Milliès-Lacroix, "at finding the helmet introduced into the equipment of the troops without the Parliament being consulted. We share this perturbation. The helmet is a new item of equipment, which, legally, may not be introduced without legislation. We are not opposing the principle of its adoption; but we cannot admit such innovations without the assent of the Chambers. The Commander-in-Chief having applied for it, on the 17th February, the proposal should have been submitted to the Parliament, as the law requires. Moreover, the question has only come before us incidentally. The Minister of War began by adopting the protective cap [*la calotte protège-tête*]. The expenditure was incurred without the grant of a credit, although this cap was adopted in December 1914. Why were the credits not asked for then? Today we are presented with the bill, 1,485,600 francs. As for the helmets, the cost will be near 7 millions. No credit is at present asked for. That will come later. This is a regrettable procedure."

VIII

It had been demonstrated, at the time of the provisional credits for the fourth quarter of 1915, that it was impossible to draw up an annual budget properly so called for the financial year 1915. Nevertheless, having regard to the practice—an excellent one—of drawing up annual accounts, the Government was at pains to discover an arrangement in keeping with the ancient tradition. It decided accordingly to present a draft law to the Parliament at the end of 1915, comprising all the provisional credits already granted, and also, no doubt, the receipts authorized, with an estimate based on the amounts actually recovered.

This recapitulation was very useful. It allowed one to see at a glance, for the past year, the total of the credits granted and of the receipts, and to infer the balance, or rather the deficit. It should also have enabled the *accounts* to be drawn up in the usual form. These accounts are prepared by financial years and are framed on

³⁴ Report of the 22nd July 1915, No. 260, pp. 95 *et s.*, and particularly pp. 98 and 99.

the budget. If there were no recapitulative statement of credits, said the Government, it would be impossible to present the accounts in the traditional form.³⁵ As a matter of fact, the recapitulative statement did not prove as useful as had been anticipated. In particular, owing to the disorganization of the financial services, it has, up to now (1925), proved impossible to draw up all the war accounts.³⁶

SECTION V

CONTROL OVER EXPENDITURE INCURRED BY THE MINISTRY OF WAR, FROM THE TIME OF THE OUTBREAK OF HOSTILITIES

As soon as war broke out, the Budget Committee of the Chamber of Deputies applied itself to a question that has an important bearing on the correct and honest observance of the budgetary dispositions: the control over expenditure incurred, during war, by the Ministry of War.³⁷ The system of recording expenditure incurred that was in force at the Ministry of War was devised before the War and had a double purpose:

(1) To keep the Minister, who is responsible to the Parliament, informed as to expenditure incurred.

³⁵ M. Ribot, explanatory statement attached to the draft law of the 16th September 1915 providing for the opening of provisional credits for the fourth quarter of 1915: "We are applying to you for the third time for provisional credits in respect of the financial year 1915. Added to those already granted, the credits that we are now asking for should meet the whole of the requirements of the year. The Government proposes subsequently to present to you a draft law that will convert these provisional credits into final credits; that will fix the total sum accorded for the financial year; that will authorize us to continue during the supplementary period* the operations of receipt and expenditure; and that will allow us to present accounts in the customary form." [The *exercice financier* in France comprises the financial year proper (1st January-31st December) and a supplementary period of seven months for the completion of operations of disbursement and recovery begun during the financial year and authorized by the budget of that year. *Translator's note.*]

³⁶ See above, pp. 27 *et s.*, and pp. 37 *et s.*

³⁷ See, as regards this, the second report of M. Métin on the bill concerning the opening and cancellation of credits for the financial year 1914 (*Chambre*, 25th March 1915, No. 784, pp. 14 *et s.*).

(2) To provide a forecast of the expenditure remaining to be incurred up to the end of the financial year.

We have here a definition of the two objects of the control over expenditure incurred:

(1) Order and regularity in the accounts.

(2) Power of prevision.

Regulations laid down how a special ledger, under financial years, heads, and sub-heads, was to be kept by the controller of expenditure; and the procedure by which, and the form in which, the monthly statement was to be drawn up, which was to be submitted by his department to the Minister on the 25th of each month.

Expenditure greatly increased from the very first days of the mobilization. The Ministry of War decentralized purchases and instructed commissaries to purchase locally. Moreover the Minister gave orders that the supplies or additional supplies required were to be obtained at whatever cost. As a result of these various measures, the normal procedure relating to expenditure incurred was abandoned. But record and check could not be altogether dispensed with, for there would then have been no foundation on which to draw up applications for supplementary credits and subsequently to defend them when they were submitted to the Chambers for sanction. The central administration was accordingly obliged to issue instructions for the supervision of expenditure.

I

In a memorandum of the 7th August 1915 issued by the Directorate of Military Stores,³⁸ the following passage occurs, with reference to home services (outside the army zone):

“The imperative necessity of satisfying the requirements of the Army without delay makes it impossible to continue to account in strict accordance with the regulations for expenditure incurred. It is none the less indispensable that the Ministry of Finance should be put in a position to provide the means of defraying expenditure as it is incurred, and to supply the necessary funds to the paymasters concerned. The Accounts Directorate (*Direction du contrôle*) remains responsible for centralizing the information to be furnished in this respect to the Finance Ministry.

³⁸ *Revue de science et de législation financières*, 1915, pp. 526 et s.

"Consequently whenever an administrative directorate gives an order for supplies, orders a purchase to be made, or, in general, incurs expenditure, it must immediately forward to the Accounts Directorate a voucher showing the nature of the expenditure, the amount of it estimated as closely as possible, and the place and date of payment. This regulation applies to payments to be made both at home and abroad."

But these instructions were not observed by the services.

II

At the front, Art. 108(b) of the Regulations of the 3rd April 1869 gave to Generals-in-Chief the power of authorizing expenditure. To regularize the procedure, it was necessary that the authorizations of expenditure should be regularly recorded and should be followed as soon as possible by the issue of covering ministerial sanctions.

In the early part of the War the schedules of warrants issued under the authority of the Generals-in-Chief, which the Commissariat officers were required to send in to the central administration, did not reach the latter with regularity, so that it had difficulty in following the progress of expenditure. The Minister of War was consequently unable to justify his estimates of the credits required, as he was asked to do by the Budget Committee in virtue of the right of parliamentary control.

The Budget Committee realized this situation as soon as, on resuming work, it turned its attention to Army expenditure. It requested the Ministers of Finance and of War to take the necessary steps to secure that regular accounts of expenditure authorized, of warrants issued, and of credits delegated, should be kept at the front. As a result of its criticisms, the Ministers of War and Finance issued instructions to the Army Commissaries and Paymasters-General respectively, requiring that monthly statements should be rendered to them of the warrants issued by the former and of the expenditure authorized and paid by the latter.

The Minister of Finance gave various other instructions intended to secure that covering sanctions should be issued as rapidly as possible and with proper accuracy; these were to appear at the beginning of each month in respect of the preceding month.

Finally, the two Ministers laid stress on the maintenance of agreement, in each section of the army, between the accounts of the paymaster and of the commissary.

These various instructions were not fully observed.

II

HOW FRANCE MET HER WAR EXPENDITURE

BY HENRI TRUCHY

THE WAR FINANCE OF FRANCE

INTRODUCTION

The factors in France's problem of war finance.

A COUNTRY engaged in a great war always finds it difficult to assemble resources adequate to its expenditure. The conditions under which the problem presented itself to France in the War of 1914 made the solution a matter of special perplexity, and this for two series of reasons, the first dating from before the War, the others resulting from the War itself.

The following were the reasons anterior to the War:

(a) The management of the public finances since the last years of the nineteenth century had not been good, and testified to a considerable relaxation of political morality. There was nearly always delay in voting the budgets, and these frequently showed a deficit, equilibrium being secured only by authorizing the Minister of Finance to issue short term obligations to cover the amount of the anticipated shortage of revenue. Special accounts interfered with budgetary unity, and by breaking up the expenditure, disguised its total amount. The need for an effort to remedy the fiscal position was evident during the period that preceded the War, but this effort was adjourned from year to year. It was admitted, when the budget of 1914 was voted, that the additional taxation required was of the order of 600 or 700 million francs. The evils resulting from a lax financial administration were however not yet very serious. France was passing through a period of active economic development; the national wealth was increasing rapidly, and the effort required to place the budgets on a footing of solid equilibrium would have been slight relatively to the country's resources.

(b) A more serious matter was the magnitude of the public debt. On the 1st January 1914 the total debt of the French State amounted to a little more than 33 billions of francs;¹ it was one of the heaviest State debts then existing. No serious attempt had been made since the war of 1870, except during the years that immediately followed, to amortize it; it was heavier in 1914 than in 1876, at which time

¹ No attempt has been made to give the equivalent in dollars or sterling of the sums in francs mentioned in the course of this work: partly because any assistance that such conversions might afford the reader would be counterbalanced by the confusion and irritation caused by the multiplicity of

the financial consequences of the war of 1870 were being felt to the full, and it was paradoxical that during this long period of peace the debt should have increased and not diminished.

(c) The French system of direct taxation was in course of transformation. Discussions which had lasted for more than twenty years had shaken the system of direct taxation evolved by the French Revolution, the essential principles of which had remained unchanged: real taxes² assessed for preference on the outward signs of revenue; summary taxes, designed less to follow variations in the value of what was taxed than to relieve the taxpayer from too close a contact with the fiscal administration; taxes which, on the whole, yielded well, especially if one takes into account that they also provided for the needs of the departments and the communes, but which did not accurately adapt themselves to the taxable capacity of the individual. This old system of taxation had for long been the object of vigorous criticism. The first and decisive attack on it had been launched on the eve of the War, in the law of the 15th July 1914, which instituted a general income tax of a personal character. The new tax found little support among those who were to pay it; it was in violent conflict with prevailing habits, prejudices, and dislikes; its application, moreover, entailed a serious change in the administrative methods hitherto in force. The French Government consequently found itself on the outbreak of war, so far as direct taxes were concerned, between two stools; between the old system which it had done its best to discredit and at which it had just struck the first blow, and a new system for the enforcement of which neither the taxpayer nor the administration was prepared. The result was that it proved impossible to obtain any increase of yield, during the War, from the direct taxes.

To these difficulties, which dated from before the War, the positions in the text; partly because the fluctuations in the exchange value of the franc place great difficulties in the way of any consistent system of conversion.

It may help the reader to be reminded that, *at the par of exchange*, a million francs is *roughly* equivalent to \$200,000, or £40,000, and a billion (1000 million, according to American usage. See footnote 6, p. 9) francs is *roughly* equivalent to \$200,000,000 or £40,000,000. [Translator's note.]

² "Real taxes are assessed on objects other than persons, and without direct reference to the owners or possessors." Bastable. [Translator's note.]

tion in which France was placed by the War added others of a far more serious character.

(a) The mobilization was carried out in France with extreme rigor. If we reckon not only the combatant services, but also the auxiliary services and the services behind the lines, nearly 8 million men were mobilized, or more than 20 per cent of the population. This is a higher proportion than prevailed in any other of the belligerent countries except Serbia. Moreover, sufficient care was not taken, at the outset, to exempt from mobilization the men who were essential to the maintenance of the country's economic life. Everyone was taken, firstly because the democratic prejudice in favor of equality appeared to require it, and secondly because it was generally believed, by soldiers and civilians alike, that the War would be of short duration; as soon as it came to an end, in a few weeks or a few months at most, economic life would resume its course. This general mobilization, carried out without discrimination, disorganized the economy of the country.

(b) The disorganization of economic life was much intensified by the invasion. Only a relatively small portion of French territory was actually invaded. But the wealth, agricultural and industrial, of this area was far more than in proportion to its extent. To appreciate the part that it played in the national economy, it is enough to remember that France found herself deprived, through this loss of territory, of 64 per cent of her output of cast iron, of 62 per cent of her output of steel; that out of 170 blast furnaces working at the outbreak of war, 85 fell into the hands of the enemy, together with 48 Martin furnaces out of 164, and 53 converters out of 100. The French output of coal fell from 40 million tons before the War to less than 20 million tons in 1915, and that of iron ore from 22 million tons to 620,000 tons. If France was able to survive this terrific lopping away, in the first weeks of the War, of her capacity for production, it was only by reason of her fertile gift for improvisation; but as the taxable capacity of a country is only the reflex of its productive power, it is not surprising that the problem of war finance was far more complicated in France than elsewhere.

(c) There was a further cause of economic disorganization. Ill considered moratoria, too wide in their scope and maintained for too long, threw credit business into confusion, upset financial mar-

kets, and demoralized commercial circles. The public authorities had not at all foreseen the problems of this kind that the War would raise, and found themselves unprepared to face them.

Not only was the problem of war finance presented under these difficult conditions, but it assumed dimensions far exceeding all forecasts.

The French budgets of the years preceding the War were of the order of 5 billions of francs; with expenditure rapidly increasing. For 1914 the estimates as voted amounted to 5192 millions of francs, but there were some special Treasury accounts and some extra-budgetary expenditure to be added. Indeed, if the War had not come, France would soon have had budgets of six billions.

Competent authorities calculated that a great war might well cost 15 to 20 billions of francs; they were completely out in their reckoning, for the expenditure that the French Treasury had to meet from the 4th August 1914 to the end of 1919 exceeded 200 billions of francs.³ The dimensions of this War, from a financial as from a military standpoint, were far greater than could have been previously imagined. For the same period the peace expenditure, if calculated at the rate of 5 to 6 billions a year, would have been of the order of some thirty billions. The simple juxtaposition of the two figures indicates the magnitude of the financial problem that the War set to France. We do not pretend, in giving these figures, to state the amount of the war expenditure with rigorous accuracy; the expression war expenditure is in itself ambiguous and gives rise to controversy. But the difference between what the expenditure would probably have been in peace conditions and the expenditure incurred during the War, although the latter may only roughly represent the expenditure arising out of the War, is sufficiently instructive for our present purpose.⁴

An important point must however be noticed, to which we shall have occasion to return. For most of the other belligerents the War, from a financial point of view, came to an end at the end of 1918 in

³ Hostilities ceased in November 1918, but the armies remained on a war footing during part of 1919, and that year was burdened with expenditure which was the direct outcome of the War. We shall therefore include the year 1919 in the scope of this work.

⁴ The critical statement of the question of war costs is given in Prof. Jèze's monograph which is the companion to this study in the present series.

fact, and in the middle or at the end of 1919 if the official date of the restoration of peace be taken. It was not so with France. Its territory had been the principal theater of war, and immense ruins had been accumulated there, as a result either of the actual military operations or of the spirit of destructiveness that animated the enemy. As a consequence, the termination of hostilities did not bring France an immediate alleviation of the financial stress to which she had been subjected. Alongside of her ordinary budget, necessarily much swollen by the service of the war debt and by the depreciation of her currency, she has had a budget of so-called recoverable expenditure, in which were comprised the sums assigned to the restoration of the devastated areas and to the payment of pensions, that is to say, the sums that the Treaty of Versailles laid at Germany's charge, but which Germany did not pay.⁵ The total expenditure, on the ordinary budget and on the budget of recoverable expenditure, for which the Treasury has had each year to provide since the end of the War, was at first of the order of 40 to 50 billions of francs, and was therefore quite comparable with the expenditure of the last years of the War. Things continued in France, from a financial point of view, as if the War was still proceeding. And so it will be until the devastated areas have been completely restored.

Given the conditions in which France had to meet the problem of covering her war expenditure, it was evidently quite impossible to increase her normal revenue, of which taxation was the principal item, to an extent and at a rate sufficient for the purpose.

It is often discussed whether, in case of war, a Government should have recourse to taxation or to borrowing. The question depends so closely on the circumstances that it cannot be answered dogmatically. Recourse to taxation is undoubtedly preferable, to the extent to which it is practicable and does not involve a threat to the country's productive power. But it is precisely this question of extent which is difficult of solution; and it is manifestly a question of fact, the terms of which and the answer to which vary with each country and with each war. It happened in the last war that the expenditure was on so great a scale that none of the belligerents was able to meet a very

⁵ The budget of recoverable expenditure was incorporated in the general budget for 1925.

large proportion of it except by borrowing. Even Great Britain and the United States, although the latter, until they joined in the War, had derived enormous profits from it, covered by taxation only the smaller part of their expenditure.

France was in a particularly unfavorable position: her territory served as field of battle; she had from the very outset to make a prodigious effort; and this effort and the invasion of one of her richest areas disorganized her economic life. The total of private incomes in France was estimated, before the War, at about 35 or 36 billions of francs. As early as 1915 the total expenditure rose to 22,800 million francs, or about 64 per cent of the pre-war national income, and in 1916 to very nearly 33 billions of francs, or more than 90 per cent of this income. From 1917 onwards the annual expenditure exceeded the pre-war income. This income, moreover, was in reality much reduced by the disorganization of the country's economic life; and it was hardly before 1917 that, owing to the depreciation of the currency, the national income came to be expressed in terms that concealed its real diminution and made it appear equal to, and soon even larger than, its pre-war figure. It was therefore impossible, at least during the first two or three years of the War, that taxation and the other normal resources should supply more than a very small fraction of the sums needed by the State. Indeed, the yield of the existing taxes was, until 1917, less than before the War; increases appeared only from 1917 onwards, partly in consequence of the gradual restoration of economic activity and partly as the result of new measures of taxation. Down to the end of the War, by far the greater part of the expenditure was covered by various forms of borrowing.

If we add up the funds of all kinds of which the French Treasury disposed from the outbreak of war down to the end of 1919, we get the following figures:

Millions of francs

I. <i>Budgetary receipts.</i>	
(a) permanent budgetary revenue	32,194
(b) exceptional budgetary receipts (tax on war profits and proceeds of the disposal of stocks)	2,666
Total	34,860
II. <i>Proceeds of loans</i> ⁶	175,520
Grand total	210,380

This table brings out how small a proportion of the funds employed to meet the war expenditure was drawn from sources other than the proceeds of loans. Even if we include in it exceptional budgetary receipts, this proportion was only 16½ per cent; so that substantially more than four-fifths of the total resources was provided by sundry forms of borrowing.

We shall now examine the various sources from which the French State drew funds, treating the subject in the following order:

Chapter I. Normal revenue.

Chapter II. Appreciation of French fiscal policy during the War.

Chapter III. Advances by banks of issue.

Chapter IV. Treasury borrowing.

Chapter V. Funding loans.

Chapter VI. External loans. The necessity for them. Policy adopted to restrict recourse to foreign capital.

Chapter VII. External loans. Their forms and their yield.

Chapter VIII. The financial mechanism of the War.

⁶ After deduction of net repayments effected by the Treasury and not carried to budgetary expenditure.

CHAPTER I

THE NORMAL REVENUES

I. *The normal revenues before the War; their yield from August 1914 onwards.*

THE normal revenues include not only the yield of taxes, but also the proceeds of the State's monopolies and industrial enterprises, those of the State domain, and two classes of receipts of varied character known as "miscellaneous budgetary receipts" (*produits divers du budget*) and "appropriations in aid" (*recettes d'ordre*). The total yield of these sources of revenue had in 1913 reached 4903 millions of francs, of which taxes produced 3524 millions, and monopolies, industrial undertakings, and State domain 1097 millions, or together 4621 millions; the balance was furnished by miscellaneous budgetary receipts and appropriations in aid. The increase in normal budgetary revenue had been rapid: ten years earlier, in 1903, it had amounted in all only to 3651 million francs.

On the outbreak of war there was a sharp and sudden decline in revenue. If we compare the figures of receipts with what they would presumably have been in normal conditions, we find the following decreases:

	<i>Per cent</i>
In the five last months of 1914, a decrease of	38.6
In the year 1915, a decrease of	19.0
In the year 1916, a decrease of	3.5

At the very moment, therefore, when the State had to meet an enormous increase of expenditure, it was faced with a formidable shrinkage of revenue. This shrinkage was due to the circumstances recalled in the introduction: the extent of the mobilization, the invasion of one of the richest areas of France, the serious disturbance of the national economy. It was only from 1917 onwards that budgetary receipts returned to, and indeed rose above, the level at which, but for the War, they would have stood. The increase was 20.9 per cent in 1917, 33 per cent in 1918, and 68.6 per cent for the first four months of 1919. For the whole period from the outbreak of war to the 30th April 1919, the revenue indeed showed an excess, as compared with what it would probably have been in peace-time,

of about 8 per cent. But it must be observed that this modest total excess was the result of the new measures of taxation, and that if we include only the taxes that were previously in force, the budgetary receipts from the 1st August 1914 to the 30th April 1919 show a decline of about 10 per cent. This sufficiently indicates how deeply and persistently the War disturbed the working of the French fiscal machinery.

The following are the absolute figures of the annual yield of the normal revenue, from the 1st August 1914 to the end of 1919.¹

	<i>Millions of francs</i>
August-December 1914	1,235
1915	4,130
1916	4,932
1917	5,977
1918	6,213
1919	9,707
	<hr/>
Total	32,194

It was not until 1916 that the normal revenue, in absolute figures, returned to the level of 1913 and even exceeded it a little. But, under peace conditions, 1916 would, in the absence of some very exceptional circumstances have yielded more than 1913. It was only in 1917 that the revenue was greater than it would have been in peacetime, because the fiscal measures that had been adopted then began to make themselves felt.

II. *The financial policy of the French Government; its evolution.*

Down to the middle of the year 1916, it was the Government's financial policy to propose no new taxes and to meet the war expenditure out of advances by the *Banque de France* and by means of issues of Treasury bills. In the explanatory statement attached to the bill granting provisional credits for the first half of 1915,² the Minister of Finance, after having indicated the enormous fall in budgetary receipts, the magnitude of the expenditure, and the means adopted to meet it, proceeded as follows: "In the present state

¹ Excluding exceptional budgetary receipts other than loans; excluding, that is to say, tax on war profits and disposal of stocks.

² *Chambre des Députés, annexe au procès-verbal de la séance du 22 décembre 1914, Document No. 433.*

of things we propose neither to create new taxes, nor to increase existing taxes. The figures that we have given show that taxes are being collected with difficulty. We must not think of adding, at this moment, to the country's burdens. No doubt certain districts, and in all parts of the country certain persons, are suffering less than others from the present crisis, but it would be more than difficult to make distinctions, and it is better to postpone an increase of taxation until the country has been freed from invasion and economic life has resumed its full activity."

It is easy to understand that it should have been thought impossible, at the outset of the War, to increase the yield of taxation. Besides the valid reasons adduced by the Minister of Finance in the above-quoted document, there was the disorganization into which the mobilization had thrown the financial, as indeed all the other, departments. It should be added, in order to give a correct idea of the state of mind prevailing at the time, that there was a very general conviction that the War would be of short duration; in the military as in the best-informed political circles there was practically no one who realized what this War would be. Increased taxation would not become necessary, it was thought, until the War was over.

There is, therefore, nothing to record in this first period of the War beyond the application of measures that had been decided on before its outbreak: from the 1st January 1915 the law of the 29th March 1914 on the reform of the land tax was brought into force; from the 1st January 1916, that of the 15th July 1914 establishing a general income tax. Moreover, neither of these reforms opened new sources of revenue to the State. We shall deal presently with the income tax. As regards the reform of the land tax, it consisted in a relief of agriculture and in an attempt to compensate for this relief by an increase of taxation on securities.

With the protraction of the War and the increase of expenditure, public opinion as to the advisability of strengthening the fiscal position necessarily underwent a change. Obviously no one supposed that the gap between expenditure and normal revenue could be made good by new taxes. This deficit had amounted to 7664 millions of francs for the first five months of the War, and to more than 19 billions in 1915. But it could not be allowed to go on growing in this way without an effort being made to increase the normal revenue; such an effort was indispensable, if only to maintain French

credit. It was indispensable likewise from a moral standpoint: it was necessary that the nation should show itself vigorous and determined in every sphere, and that sacrifices should not be confined to the fighting line—if sacrifices so incommensurable as those of the soldier and the taxpayer can be at all compared. Moreover new wealth was being created, or at least the appearance of new wealth resulting from the increased issue of monetary tokens; factories had been built or transformed, which were working for the State and making large profits; wages were rising; a new form of luxury was spreading among wide classes of the population, a luxury bred of the War, which offered a poignant contrast with the poverty and privations that many were suffering. The country was recovering from the first formidable shock and adapting itself to the War; a sort of equilibrium was being restored, and there was no doubt that new taxes could be imposed or old taxes made heavier.

At an early stage the Finance Committees of the Chamber and the Senate encouraged the Government to create or increase taxes. It was in the middle of 1916 that the Government decided to depart from the waiting policy it had hitherto pursued. The explanatory statement attached to the bill granting provisional credits for the third quarter of 1916³ refers as follows to this subject: "The prolongation of the War makes it inevitable that the country should submit to further sacrifices. We have been able up to now to avoid asking you to increase the existing taxes or to create new taxes. This policy, which has been at times the subject of criticism, was justified by valid reasons, which we have frequently explained and which it is unnecessary to repeat. But the lapse of time, by changing the factors of the problem, has led us to modify our views. There comes a moment when the disadvantages of too long delay must be weighed against those which we have pointed out. The loans that we are obliged to contract for the purpose of national defense entail increasing charges, for which we should do wisely to provide without waiting for the conclusion of peace, so far as the state of the public wealth and of private incomes will permit. The Budget Committee has insisted very forcibly on this point, and we cannot fail to admit the soundness of the arguments that it has put forward. Moreover the country has grown accustomed to the idea that it would be

³ *Chambre des Députés, annexe au procès-verbal de la séance du 18 mai 1916, doc. No. 2115.*

called upon for a fresh effort when the need for it became more apparent. And, lastly, the very prolongation of the War, making it necessary, as it does, to sacrifice estimable opinions and personal interests to the good of the country, should make it easy to arrive at an agreement among all the representatives of the nation. We have the firm hope that the debates on the proposals that we feel bound to submit to you, will be conducted in a sincerely conciliatory spirit, as all parliamentary debates should be in time of war and in a country that is in part occupied by the enemy. If that hope is realized, it will remove one of the chief, perhaps the strongest, of the reasons which have led us to defer until now the proposals that you will be called upon to discuss."

The fundamental idea in the above-quoted passage was this—to provide for the permanent charges to which the War would give rise, that is to say, for the service of the debt. This idea appeals forcibly to the mind and represents the minimum sacrifice that a country at war can be asked to make. The country meets, as best it can, the expenditure that the course of the war entails, and indeed, when the war reaches a certain pitch of intensity, it is difficult and indeed impossible to meet it by means of taxation. But the interest and sinking fund of the loans contracted for the purpose of the war constitute the permanent charge that the war leaves behind it, and it should be an imperative rule, to be observed at the cost of the greatest sacrifice, that this charge must be met, as it grows, by fresh taxes.

The last words of the passage quoted above allude to the conciliatory spirit in which the ministerial proposals regarding taxation ought to be examined. This refers to the conflict that was proceeding between the supporters of the old system of direct taxes and those of the new system, the introduction of which had been begun by the law of the 15th July 1914 and had been interrupted by the War. The ministerial program of the 18th May 1915 contained a proposal which the Parliament did not accept—the doubling of the old direct taxes with the exception of the door and window tax. The measure was rejected because it appeared to confirm taxes which it was the object of the fiscal reform then in progress to sweep away, and which were in fact abolished by the law of the 31st July 1917. Thus in the very first fiscal program put forward by the Government, we have evidence of the difficulty to which reference was made

in the introduction, arising from the fact that the War caught France at work on the reorganization of its system of taxation.

The fiscal program of the 18th May 1916 comprised a series of measures whose yield was estimated at a little more than 900 million francs. Of these measures, some were not accepted by the Parliament; others were included in the law of the 30th June 1916 granting provisional credits for the third quarter of 1916; others again, and these were the majority, were discussed at greater length and were adopted with more or less extensive modifications, but only in the law of the 30th December 1916 granting provisional credits for the first quarter of 1917. This law comprised not only some of the measures derived from the program of the 18th May, but also others that the Budget Committee had originated. In 1916, besides the fiscal provisions contained in the two laws of the 30th June and 30th December, the law of the 1st July set up the extraordinary tax on war profits.

The effort to improve the public finances proceeded in 1917 and 1918. A second fiscal program was submitted by the Government on the 22nd June 1917; but on the resignation of the Minister who had presented it, his successor withdrew it and substituted a group of measures contained in the budget bill for the ordinary civil services for the financial year 1918.⁴ The bill reproduced some of the proposals of the program of the 22nd June, some unaltered, others more or less modified. No general program was put forward in 1919, but various measures yielded considerable revenue, notably the increase in the sale price of matches, of tobacco, and the increase of the customs duties by the institution of coefficients applicable to the rates.

The following table enumerates the laws (or in certain instances the decrees) creating or increasing taxes, together with their anticipated yield in normal times, thus summarizing the measures of fiscal reform adopted from 1916 to 1919. It comprises only the measures intended to be permanent, and excludes the extraordinary tax on war profits instituted by the law of the 1st July 1916, and the extraordinary war tax of the 30th December 1916, both of which were of a temporary character.

⁴ *Chambre des Députés, annexe au procès-verbal de la séance du 13 Novembre 1917, doc. No. 3941.*

*Taxes created or increased from 1916 to 1919.**Estimated yield*
(In millions of francs)*1916*

Law of 30th June	125
Law of 30th December	678

1917

Law of 31st July ⁵	—32
Law of 29th September	0.3
Decree of 1st October	16
Law of 31st December	877

1918

Law of 17th January	170
Law of 18th April	39
Law of 29th June	705

1919

Decree of 26th May	15
Law and decree of 27th May and decree of 28th May	150
Law of 14th June	1
Decree of 8th July and subsequent decrees	300
Law of 29th August	5
Law of 7th November	9
Decree of 23rd December ⁶	—4

The increase of revenue anticipated from the various measures adopted from 1916 to the end of 1919 is of the order of 3 billions of francs, an estimate which relates to normal times, not to a period of war or transition. To complete the statement we should add the yield of the extraordinary tax on war profits, which amounted, for the three financial years 1917-1919, to 1459 million francs; but this was not a permanent revenue.

The fiscal reform thus accomplished was considerable, especially if one bears in mind the unfavorable conditions under which it was effected; we shall have to inquire whether it could have been greater. It was during the year 1920, after the period to which this work is confined, that the first great effort was made to restore budgetary equilibrium in France. The yield of the fiscal measures adopted in

⁵ The law of 31st July 1917 abolished the old direct taxes and substituted an income tax by schedules; its net effect was a reduction of revenue of 32 million francs.

⁶ The decree of 23rd December 1919 reduced the customs duty on automobiles, and caused a reduction of revenue of 4 million francs.

1920 exceeds $7\frac{1}{2}$ billions of francs; they would have sufficed approximately to place French finances once more on a sound footing if the default of Germany had not, in addition to the problem of the ordinary budget, raised the far more serious problem of the reparations budget.

We shall have to follow, in the course of this chapter, the main lines of the changes introduced into the French fiscal system during the war. We shall deal only briefly with the temporary taxes, the extraordinary tax on war profits and the war tax; we shall dwell at greater length on the new or modified taxes of a permanent character.

III. *The extraordinary tax on exceptional or excess war profits.*

The Temporary War Tax.

The extraordinary tax on exceptional or excess profits realized during the War was imposed by the law of the 1st July 1916. It was the first fiscal measure that was thought of; in the very first months of the War proposals were made in this sense, which originated in the Parliament. When the Government, in November 1915, submitted to the Chamber its first project for a loan in the form of *rentes*,⁷ it announced its intention of asking for the creation of a tax on war profits; the scheme relative thereto was laid before the Parliament two months after the loan project, on the 14th January 1916, in connection with the demand for the supplementary credits required to meet the service of the new *rentes*.

It was natural that the idea of imposing a tax on war profits should suggest itself to the mind of governments and be not only received with favor but vehemently demanded by public opinion. War profits are of the nature of rent, in the economic sense of the term; they are the outcome of circumstances. Moreover, bred of the calamities of the nation, amid the bereavements, the sufferings, the impoverishment, and the ruin of many, these gains, which benefit the few, are of an extremely and ostentatiously immoral character. England was the first among the belligerents to tax them through the "Excess Profit Duty"; all the belligerents and some of the neutrals instituted similar taxes.

The French law imposed a tax on exceptional profits, that is to

⁷ See below, Chapter V.

say, profits which certain persons realized by means of transactions that were foreign to their ordinary avocations, and also on supplementary profits, that is to say, profits which manufacturers and traders realized in the normal exercise of their profession, but which, as a result of the War, exceeded the normal level. The profits of agriculturists, in so far as the latter sold only their own produce, were exempt from the tax; we have here one of the numerous and important privileges granted by the French fiscal laws to agriculture; it has served, during and since the War, as a solid foundation for the prosperity of the peasantry. The rate of the tax on war profits was fixed at 50 per cent by the law of the 1st July 1916; a law of the 31st December 1917 made it progressive, from 50 per cent on so much of the taxable profits as did not exceed 100,000 francs, to 80 per cent on so much as exceeded 500,000 francs.

The tax on war profits ceased to be applicable in respect of transactions subsequent to the 30th June 1920. But the machinery of assessment and recovery and the period accorded for payment had the effect of placing the main yield after the end of hostilities. The produce of the tax was

In 1917	209 millions of francs
In 1918	578 millions of francs
In 1919	672 millions of francs

or 1459 millions for the period with which we are here concerned. On the 31st August 1925, the aggregate of the demand notes issued was 17,688 million francs, and the total yield of the tax appears likely to be about 18 billions.

The Temporary War Tax was imposed by the law of the 30th December 1916. Its object was to obtain a supplementary contribution from Frenchmen who belonged to a class liable to mobilization, but who, for a reason other than wounds inflicted in war or disease contracted in the service during hostilities, were not serving with the armies. It comprised a fixed duty, and a proportional duty equal to 25 per cent of the general income tax payable by the man in question. The purpose of the tax was political rather than financial; it was designed to satisfy public opinion by placing a special impost on Frenchmen of military age who were not serving with the colors.

IV. Transformation of the direct taxes. The general income tax and the tax by schedules.

When war broke out, the Parliament had just voted the law that began the transformation of the system of direct taxes (law of 15th July 1914). The law of the 15th July 1914 did not abolish the old direct taxes, but it instituted a general income tax. This tax, very moderate in amount (2 per cent) and involving no obligatory declaration, was little more than an experiment, a kind of statistical impost. Nevertheless it marked a date in French financial history; it was the commencement of a new system and betokened the more or less speedy fall of the old.

The question of the direct taxes had long been under discussion in France; from the parliamentary point of view, discussion had entered into the stage of realization when M. Caillaux brought in his bill in 1907. The bill proposed to set up, in the place of the old direct taxes, two new ones: (a) A general tax on income, this being divided into seven categories; (b) a supplementary tax on the total income. This fundamental idea was that finally adopted, the supplementary tax becoming the general income tax, and the general tax becoming the tax by schedules or categories of income. The general tax, instituted by the law of the 15th July 1914, was modified as regards its assessment, and its rate was raised by a series of laws passed from 1916 onwards. The tax by schedules was instituted by the law of the 31st July 1917.

The laws of 1914-1917 introduced, in reality, a new conception of direct taxation. The old system, in its main lines, dated from the French Revolution. Its principles were the following:

(a) The tax was on the thing, not on the person. It was assessed on the taxable possession independently of the person of the taxpayer.

(b) It was, so far as possible, an estimated tax. The taxable income was not the exact income, year by year, that the taxpayer has enjoyed, but a mean income: the income that a given estate, a given business, should give on the average over a fairly long period.

(c) The taxable income was ascertained from without, by means of external signs easily apprehended; the income was presumed rather than ascertained. The obligatory verified declaration, according to this conception, was looked upon as something intolerable, a

kind of interference with the liberty of the citizen. In short, the fiscal conception bore the strong impress of the individualism that marked the ideas and institutions of the end of the eighteenth century; it was a system of taxation made for a nation of small proprietors, of manufacturers and traders on a small or moderate scale, each one firmly entrenched in his land or in his shop, very jealous of his rights and looking on the State as an enemy. It involved the minimum of contact between the fisc and the taxpayer, and the maximum of freedom for the latter.

In the new fiscal system inaugurated in 1914 we find established the notion of the personal tax; the tax in exact proportion—at least theoretically and on paper—to the individual's contributive capacity; the tax which, being in the closest possible relation to the actual circumstances, necessarily makes use of the obligatory verified declaration as the instrument for ascertaining the income. This instrument had not been created by the law of 1914, which was an introductory and experimental measure: it was created by the law of the 30th December 1916, which was reinforced by subsequent enactments, notably by that of the 31st July 1920.

The old system of direct taxes in France comprised a tax assessed on the rental value of the personal residence, the *contribution mobilière*; a tax assessed on the number of openings, doors and windows, in houses, which, in fact, generally operated as a supplement to the tax on real property; a tax on real property in two divisions, a tax on buildings and a tax on land unbuilt-on; a license tax (*la patente*) imposed on commerce and industry and certain liberal professions. The tax on income from securities, instituted in 1872, was not classed administratively among the direct taxes, but belonged to them economically. The tax on income from securities, the license tax, and the real property tax were fragments of a system, incomplete and inharmonious, of taxes by schedules of income. As for the tax on rental values and the door and window duty—so far as the latter was not a mere supplement of the real property tax—these played the part, but in a manifestly very imperfect manner, of a general tax on the total income, the income of the taxpayer being presumed to be proportional to the value of his personal residence.

The new system of direct taxes is a more harmonious edifice. We

have at the base a complete collection of taxes by schedules: (a) taxes on the income from real and moveable property; (b) taxes on mixed incomes (involving both capital and labor), that is to say, the profits of commerce and industry and the income from places and offices; (c) taxes on income from labor; salaries, wages, and pensions, the profits from non-commercial professions, and by a special favor the profits from agriculture; these profits, which are in reality of the nature of mixed incomes, in which both capital and labor have their share, being taxed at the same rate as income from labor. We have at the summit the general tax on the total income, a personal and progressive tax.

The rate of the schedule taxes varies with the nature of the income. At the present time it is 10 per cent on income from capital; 8 per cent on mixed income; 6 per cent on income from labor and on the profits of agriculture. The rate of the general tax is, at present, 50 per cent at the top of the progressive scale, this rate of 50 per cent applying only to the portion of income exceeding 550,000 francs.⁸ To these basic rates two-tenths have been added by the law of the 22nd March 1924. The schedule tax and the general tax apply cumulatively to the same income.

An old proverb tells one not to swap horses when crossing a stream. It was a difficult and perilous stream that France was crossing between August 1914 and November 1918. The law of the 15th July 1914, which instituted the general income tax, fixed the 1st January 1915 as the date of its coming into force. But it was manifestly impossible to impose the tax from that date, and the law of the 26th December postponed its enforcement until the 1st January 1916. In the last weeks of 1915, on the 10th December, the Minister of Finance notified to the Budget Committee that he intended to ask the Parliament for a further adjournment; the new tax involved the close coöperation of revenue officials and taxpayers, and the Minister adduced the practical difficulties that the state of war placed in the way of its introduction. The Chamber did not accept the new adjournment, and the Senate, after some resistance, came

⁸ The rate is uniformly 50 per cent, but the income liable to duty is calculated in such a way that the successive portions below 550,000 francs are not reckoned at their full amount. The result is the same as if the rate were progressive.

into line with the Chamber. It must be observed, moreover, that the enforcement of the general income tax did not carry with it the abolition of the two taxes that filled its place in the existing system, the tax on rental values and the door and window tax; these two taxes were not repealed until the 1st January 1918, when the law of the 31st July 1917 on the schedule taxes came into force.

A fiscal reform carried out, as this was, in the middle of a war, could not be a great financial success. Personal taxation, based on obligatory declarations, has been difficult to acclimatize in France; the process is far from complete even today. The ingrained habits of the taxpayer have to be changed, and a widespread and general resistance has to be overcome. The revenue department, moreover, must adopt new methods and create a new procedure. Apart from the difficulty of introducing at any time a new system of direct taxation in France, the War placed obstacles of all kinds in the way of its operation; these we need not dwell upon.

The yield of the general income tax, during the first years that it was in force, was not large. It was

	<i>Thousands of francs</i>
In 1916	51,503
In 1917	254,368
In 1918	547,465
In 1919	562,871

Since the cessation of hostilities the increase in the scale of the tax and the more effective supervision, coupled with the gradual recovery of the country's economic life, have increased its yield in a very marked degree. The estimated receipts under this head in the budget of 1925 have been fixed at 2924 millions of francs.

The general income tax is only one of the factors, and not the principal factor, in the French system of direct taxation, which includes the schedule taxes and the assimilated taxes.⁹ If the total yield of these various taxes is taken (including the tax on the income from

⁹ The assimilated taxes are proportional taxes recovered by means of nominal rolls, and differ widely in their fiscal character. Their yield is estimated at 248 million francs for 1925. It has risen since 1917 in consequence of the readjustments and increases of the scales of the taxes effected by the laws of the 30th December 1916, 29th June 1918, and 25th June 1920. Their yield in 1913 was 63 millions of francs.

securities which, administratively, is not classed as a direct tax), we get the following table:

	<i>Millions of francs</i>
1913	772
1914	764
1915	704
1916	731
1917	972
1918	949
1919	1,359

Their yield was therefore less during the first three years of the War than in 1913. In 1917 and 1918 there was an appreciable but still moderate increase, of about 25 per cent. It was only in 1919 that a real development was seen (76 per cent). Since 1919 the yield of the direct taxes (including the tax on the income from securities) has constantly increased; it is estimated in the budget for 1925 at 8 billions of francs. To attempt to reform the fiscal system in the middle of a war was a difficult game to play. The Parliament was unwilling to abandon the reform initiated by the law of the 15th July 1914 and considered one of the vital points in the Radical policy. But competent financial authorities were under no illusion as to the immediate results to be expected from the reform. So far as revenue during the War was concerned, an increase in the rates of the old direct taxes would have been more productive.

V. Other fiscal measures. Registration and stamp duties. Taxes on consumption. State monopolies and State industrial enterprises.

Down to 1919, direct taxation did not furnish any large amount of revenue, for the reasons above set out. The principal new sources of revenue created during the War were found in other categories of taxes. We will briefly review the fiscal measures adopted; they are of far less theoretical interest than the reorganization of the direct taxes. We shall distinguish three categories of taxation and State revenues: registration and stamps; taxes on consumption, including customs and duties on transport; State monopolies and industrial undertakings by the State.

I. As regards registration and stamp duties, a class of taxes that has been greatly developed in France, the new sources of revenue

were created by two laws of the 31st December 1917,¹⁰ by the law of the 29th June 1918 on the ordinary Civil Services Budget for 1918, and by the law of the 14th June 1919.

The first of these two laws contains the following measures: (a) as regards inheritances and gifts, a tax was imposed on the net total capital value of the estate, where the deceased does not leave at least four children living or represented by heirs; this tax was progressive and calculated at increasing rates on successive portions of the estate and was supplementary to the succession duty calculated on the several successions. Succession duty and duty on gifts *inter vivos* were increased. Collateral consanguinity for purpose of succession was limited to the sixth degree inclusive. (b) Stamp duty on commercial bills was increased. (c) A tax was imposed on payments¹¹ (subsequently replaced by a tax on the turn-over) and on luxury goods.

The second law contains only an unimportant provision in regard to the charge for passports and visas.

The third contains a series of provisions: the duty on goods held in mortmain was increased; all contracts of reciprocal obligation were required to be registered; the scale of the "reduced proportional duties"¹² was increased; an annual registration tax was imposed on life and accident insurance policies; the scale of stamp duties calculated on dimensions¹³ was raised; the stamp duties on insurance policies were increased.

The fourth law contains a single provision, relating to the annual registration tax on agricultural insurance policies.

The yield of these various measures was estimated in normal times at about one billion of francs in round figures, of which the greater part, 876 millions, was the outcome of the law of the 31st December

¹⁰ There are two laws of this date, one granting provisional credits for the first quarter of 1918, the other granting and cancelling credits for the financial year 1917.

¹¹ At the rate of 20 cents per 100 francs. It was imposed on all documents recording payments or receipts and on the retail sale of articles whose price exceeded 150 francs.

[Translator's note.]

¹² This is the name given to certain registration duties whose rate was reduced in 1893.

[Translator's note.]

¹³ The *timbre de dimensions* is a stamp duty the amount of which varies according to the dimensions of the paper employed for an instrument.

[Translator's note.]

1917 granting provisional credits for the first quarter of 1918 (the first of the above four laws).

We must include the provisions of the law of the 18th April 1918 among the fiscal measures connected with registration and stamp duties. This law has a very general title—"Law relating to measures against fiscal frauds." But, in fact, it contains only provisions calculated to secure a more thorough collection of duties of the above class—provisions relating to the opening of safes after decease, to declarations of succession, to prescription limiting the State's right of recovery of succession duty, to deeds of gift, to securities presumed to form part of a succession. The yield of these measures has been estimated at 38 millions of francs, and this sum should be added to the yield of the fiscal measures relating to registration and stamp duties.

II. As regards taxes on consumption, including customs and transport duties, the enactments were as follows: laws of the 30th June 1916, 30th December 1916, 29th June 1918, decree of the 8th July 1919 and subsequent decrees, laws of the 25th August 1919 and 7th November 1919.

The law of the 30th June 1916 raised the duties on alcohol and modified the fiscal regulations relative thereto.

The law of the 30th December 1916 imposed an internal tax on the consumption of colonial produce; raised the duties on chicory and coffee substitutes, on hygienic beverages, and on sugar; and imposed a duty on the price of seats at places of entertainment, on mineral waters, and on special pharmaceutical goods.

The law of the 29th June 1918 enacted the following measures: the statistical customs duty was increased and extended to postal parcels; the luxury tax on spirituous liquors was raised; the duties on hygienic beverages, on chicory and coffee substitutes, on vinegar and sugar were raised; the duty on transport, and the license duty on retailers of spirits were modified and increased.

The decree of the 8th July 1919 initiated the system of increasing customs duties by the application of certain coefficients. This decree and the subsequent decrees which modified the coefficients were promulgated in virtue of the law of the 6th May 1916, which gave very extensive powers to the Government for the period of the War.

The laws of the 25th August and 7th November 1919 are of only

slight importance: the former imposes a customs duty called a duty for the development of external trade; the second relates to the import duty on chemical products.

The total yield of these various measures in normal times has been estimated at 1358 million francs.

III. As regards State monopolies and State industrial undertakings, the measures taken consisted in successive increases in the sale price of tobacco, matches, and gunpowder, and in postal, telegraph, and telephone rates. They were enacted by the laws of the 30th December 1916 and 29th September 1917, the decree of the 1st October 1917, the law of the 17th January 1918, the decree of the 26th May 1919, the law and decree of the 27th May 1919, and the decree of the 28th May 1919. The total normal yield of these measures has been estimated at 540 million francs.

VI. *Deficiency of normal budgetary revenue as compared with war-time expenditure.*

The normal budgetary resources, as we have seen, only covered a comparatively small portion, 16.5 per cent, of the expenditure of the period 1914-1919. The gap between normal budgetary revenue and expenditure, year by year, was as follows:

<i>Year</i>	<i>Excess of expenditure (In millions of francs)</i>
1914	6,175
1915	17,990
1916	31,916
1917	38,475
1918	49,858
1919	42,627
	<hr/>
Total	187,041

In a war such as that of 1914, it is manifestly impossible for normal budgetary revenue to cover the whole, or even the greater part, of the expenditure. But the Government may reasonably and prudently at least aim at securing that the cost of the permanent services of the State, added to the interest and sinking fund of the public debt, should be met out of taxes and other normal revenue. By adopting this system, if circumstances permit of it, the State attains this result, that on the termination of the war its budget is

in equilibrium. Concurrently with the issue of loans to meet the extraordinary war expenditure, and the consequent growth of the service of the debt, new permanent sources of revenue have been created adequate to meet the latter; on the restoration of peace, without any, or with comparatively little fresh taxation, budgetary revenue and expenditure may be made to balance. Among the belligerents, a few attained this result or came near it; but these were belligerents whose military effort, great as it may have been, fell far short of the effort made by France; nor did they suffer from invasion and devastation. In France, the fiscal measures adopted did not place the State in anything approaching that position. If one considers, year by year from 1914 to 1919, the service of the debt alone on the one hand, and on the other the permanent budgetary revenue, excluding that is to say, exceptional revenue such as the tax on war profits, one finds that the service of the debt for these six years amounted to 26,245 million francs, while the permanent revenue amounted to 35,155 millions, so that nearly three-quarters of the permanent revenue was absorbed by the service of the debt. The proportion of the permanent revenue so absorbed went on increasing from the beginning of the period in question until the end of it, or more precisely until 1918. From 32 per cent, the proportion which the service of the debt bore to the permanent revenue in 1914, it rose

In 1915	to	44%
In 1916	to	67%
In 1917	to	80%
In 1918	to	113%
In 1919	to	81%

Thus, at the end of the period, the service of the debt absorbed more than four-fifths of the permanent revenue, after having actually exceeded this permanent revenue in 1918, leaving only 1800 millions of francs available for the other normal peace-time services, both civil and military, which in the budget of 1925 require a sum of about 13 billions of francs. In France, therefore, the permanent revenue was very far from being raised during the War to the level of the permanent expenditure.

CHAPTER II

APPRECIATION OF FRENCH FISCAL POLICY DURING THE WAR

THE policy adopted in France during the War in order to increase the budgetary revenue has been variously judged, and has given rise to considerable criticism. Two points call for study: the extent of the fiscal reform accomplished, and the direction that this reform took; the latter question deriving its interest from the fact that France has been reproached, especially in other countries, with her preference for indirect methods of taxation and for the relatively small part played by direct taxes in the fiscal measures of the War.

I. The extent of new taxation.

The new taxes and the increase of existing taxes enacted from 1915 to 1919 were calculated to yield normally more than 3 billions of francs, so far as permanent revenue is concerned. There was, besides, the extraordinary tax on war profits, a temporary revenue, which produced 1459 millions from 1915 to 1919 and a great deal more since then; it will yield in all about 18 billions of francs.

In fact, the normal budgetary revenue, permanent and exceptional, which amounted in 1913 to 4907 millions,¹ reached the following figures during the years 1914-1919:

	<i>Revenue</i> <i>(in millions of francs)</i>
1914	4,196
1915	4,130
1916	4,932
1917	6,186
1918	6,791
1919	11,586

The opinion is widely held that the increase of budgetary revenue was not so great as it might have been; this opinion would appear to be generally accepted outside France. In France itself, what has been

¹ This total includes not only tax revenue of all kinds, but also the receipts from monopolies and industrial undertakings, the yield of the domain, and miscellaneous dues and receipts.

called the weakness and inertia of the Government in this respect has been criticized, occasionally with vigor.²

The authorities undoubtedly showed much hesitation in embarking on a policy of fresh taxation. The first new tax proposed was that on war profits: the proposal dates from January 1916 and the law was passed in July of the same year. It was in 1916 likewise that the first fiscal program of the War was presented to the Parliament (18th May 1916). Indeed during the first two years of the War the Government was encouraged in this policy of abstention by eminent economists and financiers.³

That the Government showed a lack of confidence in the country's financial courage will be readily admitted. If it had spoken boldly and firmly, and declared it to be the nation's duty to support the War financially otherwise than by loans, it would have commanded assent. The authorities, in a general way, were afraid of frightening the public behind the fighting line, the civil population; they devoted themselves to concealing from it the rough side of war, to sparing its nerves.

At the same time it should be borne in mind that while criticism is easy, art is difficult. It may be that the men who bore the responsibility of power in so trying a period made certain mistakes. Who can flatter himself that, in their place, he would not have done the same or even worse? Many circumstances serve to explain why they hesitated to launch the country from the outset on a course of financial sacrifice. Besides the profound disturbance of the country's administrative, economic, and financial system caused by the invasion, there was the belief, only slowly dispelled, that the War would be of short duration. There was also the habit, old established and deeply implanted in French politics, of not telling the electorate the naked truth, but of window-dressing, as traders say.

It is however of no interest now to try to determine whether the Government of the day was right or wrong; delicate must be the scales in which such responsibilities are weighed. The real question

² Such criticisms will be found notably in the numerous and noteworthy articles devoted by our colleague M. Jèze to French war finance (*Revue de science et de législation financières*, 1917-1919).

³ M. Jèze has given a very good summary of this abstentionist campaign in one of his articles in the *Revue de science et de législation financières*, 1917, pp. 382 *et s.*

is whether a more prompt and vigorous fiscal policy might have changed the financial history of the War in an appreciable degree and have left France, at its termination, less encumbered with debt. In our opinion, to suppose that French war finance might have been quite different from what it was is unquestionably an illusive view of the past. We do not wish to suggest that a more prompt and vigorous policy of taxation would have had no effect. From a moral standpoint, for the sake of the impression it would have made, it would have been a good thing; it would have been the assertion in the financial sphere of that energy which France was manifesting so abundantly and gloriously on the field of battle; it would have testified in another way to her determination to throw the whole resources of the country into the struggle. Moreover, heavier taxes more promptly enforced would have effectually checked that unhealthy war-time prodigality that high profits and high wages had developed in a part of the population. But to suppose that a better fiscal policy during the War would have substantially altered the financial position of France is to lose sight of realities. The severest taxation could not have modified the economic conditions that the events of the War had imposed on her. No conceivable fiscal system could have supported the War in a country which was invaded, deprived of half its coal mines, of its richest iron district, and of a considerable proportion of its principal industries; in a country that had been obliged to hurry into the fighting line, pending the slow preparations of its allies, the whole of its male population of military age; in which the production of wealth was suspended, and which, from the outbreak of the War until its termination, suffered enormous material destruction. By the very nature of things, practically the whole of the funds required could be obtained only by borrowing. Another fact which limited the yield of the taxes was that the War had caught France in the middle of the reorganization of her system of direct taxation. The Parliament was unwilling to adjourn the reform that had been begun. It refused in 1916 to double, as the Minister of Finance proposed, the existing direct taxes, for fear of establishing them more firmly, and thus deprived itself of what would have been a source of considerable revenue.

The normal budgetary revenue fell short of the expenditure during the period 1914-1919 by 187,041 million francs. If we assume that the policy of creating and increasing taxes had been adopted

as early as 1915, and that the tax revenue of the years 1915-1919 might have been increased by a total sum of 7 or 8 billions, not a very easy result to attain, this would not very materially have altered the financial position. The deficit would not have been much less, nor would the sum that had to be raised by loans and by the issue of forced currency have been much diminished. What dominated the financial position of France during the War and determined its character and development with absolute rigidity, was the prodigious scale on which the War was conducted and the immense extent of the material destruction. The whole of the national strength was exerted during five years in a life-and-death struggle. This left no room for that lucrative activity and those substantial fiscal returns which place other countries, whose participation in the War was less prompt or less complete, in a position of advantage as compared with France. When once these essential features in the situation of France have been thoroughly grasped, criticisms, even if sound from a technical point of view, lose much of their force. There is, however, one year which is justly open to severe criticism—the year 1919. In point of magnitude of expenditure, this year is comparable to the war years. Nevertheless an attempt to cut down expenditure might already then have been made with more energy and success than during the period when everything was subordinated to the necessities of warfare. In this respect there was much laxity. On the other hand, the moment was favorable for creating new sources of permanent revenue and for the issue of a large funding loan. The enthusiasm aroused by victory would have facilitated financial arrangements by which a further increase of the floating debt might have been avoided, and the spirit of self-sacrifice that the recent struggle had stimulated inclined the public to accept heavy taxation. France was then in that state of mind in which the national interest predominates: a unique opportunity of which those in charge of the State finances should have availed themselves. But the new fiscal measures of 1919 were insignificant: higher coefficients were applied to the customs duties, the price of tobacco and matches was raised, and so on.

Owing to the insufficiency of the efforts to introduce economies and to raise taxation, to the failure to have recourse to long term borrowing, the year 1919 was, financially speaking, a black year. The floating or short term debt (Treasury bills and bonds) was

increased by 25,454 millions of francs, the external debt by 11,348 millions, the advances by the Bank of France by 8370 millions. By postponing the attempt to solve them, the Government substantially aggravated the financial difficulties of the following years.

But even in respect of this unfortunate year, are not the mistakes that were made excusable? After the stress, the prolonged agony, and the innumerable losses of the War, reaction was almost inevitable; a nation that had undergone the severest trials, all the springs of whose energy had been strained to the utmost, naturally succumbed to a wave of optimism and self-deception. The French may judge themselves severely; neutrals, even the allied or associated nations, which suffered far less, are not entitled to judge them with the same severity.

There is a trait in the French character which serves in a large measure to explain the financial attitude adopted in 1919. The French, frequently regarded abroad as of a sceptical disposition, take fine formulas and noble ideas very seriously; they feel an imperative need for justice. They were told in 1919 that law would henceforth regulate international relations as it regulated the relations of men within each community. They believed it with the ingenuousness of incorrigible idealists. Now, of all the rules of law, the most useful and commendable is that which directs that the person who has caused a damage shall repair it. If this rule is not observed, there is no security in the relations of men with one another, and we are reduced to the system of private vengeance. The French consequently believed in 1919 that the damage caused to property and persons by a war of aggression would be repaired by the aggressor; moreover this obligation was inserted in the peace treaties. They also believed that their allies and associates in the War would always act in concert with them to secure the discharge of the reparations due. The error lay in not foreseeing the prompt reawakening of national selfishness, and in imagining that a few high-sounding phrases would set up a state of law among the nations similar to that which centuries of efforts and strife, and the slow evolution of doctrine, have very imperfectly established among the citizens of a particular country. A prodigious error no doubt, but excusable if we carry our minds back to the circumstances and the atmosphere in which it arose.

II. *The selection of new sources of revenue. Direct taxes and taxes on consumption.*

Besides the criticism aimed at the inadequacy of the new measures of taxation, there were others concerned with the predominance assigned, in the choice of new sources of revenue, to taxes on consumption. A report presented by M. Vincent Auriol on behalf of the Committee of the Chamber on fiscal legislation⁴ has formulated these criticisms with some vigor, and, among men of science, our colleague M. Jèze has explained his reasons for thinking that taxes on consumption should be employed to the smallest possible extent; he has censured, from this point of view, the policy adopted by the French Government.⁵

The authors and politicians who think that taxes on consumption played too important a part in French war finance have failed to show how revenue could, in practice, have been obtained otherwise. If certain taxes on consumption had been abandoned, could an equivalent revenue have been drawn from direct taxation? The Chamber which sat during the War was devoted to the doctrine according to which direct taxation, personal and progressive in character, is the corner stone of a democratic financial system. There is good reason for thinking that if it had seen its way to draw the bulk of the new revenue from taxation of that kind, it would not have missed the opportunity of doing so. But we have explained, in Chapter I, why the income tax could not, during the first years of its enforcement, yield a large revenue. M. Ribot, in his fiscal program of May 1916, had proposed to double the old direct taxes, which had been provisionally maintained alongside of the new personal tax; and this would have made it possible, at that moment, to draw more revenue from direct taxation than from taxes on consumption.⁶ The Budget Committee of the Chamber of Deputies rejected this program, and on the 31st May 1916 adopted the following Order of the Day:

“The Budget Committee, considering that the doubling of the

⁴ Report of the 7th March 1918, *Chambre des Députés*, doc. 4456.

⁵ *Revue de science et de législation financières*, 1918, pp. 429 et s.

⁶ The proposed measures were estimated to yield, in a normal year, 633 millions of francs from direct taxes (including the tax on income from securities), and 459 millions of francs from indirect taxes; that is to say, 58 per cent of the total yield would be derived from direct taxation.

direct taxes would merely accentuate existing cases of inequality and injustice;

“Considering that the sum of 375 millions required by the Minister of Finance can be obtained by a different system of direct taxation;

“Considering that there is not time before the 30th June, when the provisional twelfths must be voted, to arrive at an agreement between the Government and the two Chambers, as is particularly desirable;

“Unanimously requests the Minister of Finance to make the various taxes part of the law on direct taxation which must be voted before the 15th August.”

After the vote of this resolution by the Budget Committee, negotiations were entered into between the Government and the Chambers; they finally resulted in an agreement on the group of measures embodied in the law of the 30th December 1916, which drew more revenue from taxes on consumption than from direct taxes. We are justified in believing that the preponderance given to the former was thought to be a matter of practical necessity, overriding political or theoretical predispositions.

The question of the share attributed to direct taxation in the French fiscal system must not be considered solely in respect of the war period. It must be presented in more general terms, and those terms must, to begin with, be carefully defined.

The classification of taxes as direct and indirect is purely administrative and devoid of economic value. The tax on the income of securities is not a direct tax from the administrative, but is a direct tax from the economic point of view. Among the registration and stamp duties, a category of taxes that is much developed in France, many are in effect imposed on income or capital, and their operation is quite similar to that of the direct taxes. Succession duty and the duty on gifts, the taxes on property in mortmain, the taxes on sales of real and moveable property, are instances of this. Registration and stamp duties are levied on wealth when it circulates, and not on wealth in virtue of its mere existence, as are the direct taxes. But this difference in what occasions the levy of the tax does not prevent these duties from often being, in respect of their economic effects, closer akin to direct taxes than to taxes on consumption.

When one opposes direct taxation to taxes on consumption, one

has in mind the contrast between the tax which can be adapted exactly to the individual's contributive capacity, sparing the small income and making a heavy demand on the large income, and the tax that levies the Treasury's share on articles of necessary consumption, bearing more harshly on people of small means than on the well-to-do or rich. In other words the idea suggested is that the direct tax is the tax proper to democratic States, in which taxes on consumption should, as far as possible, be discarded. But the matter is not in reality so simple as this.

No State has discarded taxes on consumption, because the revenue they furnish cannot be dispensed with. The practical question is the extent to which they should be employed. For a long time past, great use has undoubtedly been made of them in France. But the French taxes on consumption are not all imposed on necessities—far from it. The duties on alcohol, the yield of the tobacco monopoly, are very productive revenues, drawn from useless if not positively harmful articles of consumption. To whatever censure taxes on consumption may be open, these must certainly be excluded. There are also certain taxes that strike articles of luxury, for instance the duty on the hall-marking of gold and silver, the so-called luxury tax, a part of the turn-over tax, and certain customs duties.

The whole of the customs duties are included among taxes on consumption. In a country such as France, where a high and general protective tariff is in force, we have in these an indispensable section of the taxes on consumption, which would be maintained even if the principle of such taxation were condemned. The majority of customs duties are imposed not on fiscal but on economic grounds, as a form of State intervention in the competition between home-made and foreign commodities. This is a further reason for not treating all taxes on consumption on the same footing; distinctions must be made.

III. *The various categories of tax revenue in the French budget.*

The tax revenue of the French budget may be divided into four categories.⁷ The first comprises the income taxes—tax by schedules and general tax; the second, the taxes on capital and the stamp

⁷ *Inventaire de la situation financière de la France* (draft budget for 1925, document No. 441).

duties; the third, the taxes on consumption of articles that are not of prime necessity; the fourth, the other taxes on consumption, including the customs duties. The distribution of the tax revenue among these categories, at ten years interval, in 1913 and 1923, was as follows:

	<i>1913</i> <i>Per cent</i>	<i>1923</i> <i>Per cent</i>
Income taxes	18.7	27.7
Taxes on capital and stamp duties	26.2	20.1
Taxes on consumption of articles not of prime necessity	23.6	19.1
Other taxes on consumption, including customs duties	31.5	33.1
	<hr/> 100.0	<hr/> 100.0

The proportions are not radically different in 1923 from what they were in 1913, in spite of the considerable changes introduced into the fiscal system and in spite of the increase in the absolute figures. The two first categories taken together represented 44.9 per cent in 1913; they represent 47.8 per cent in 1923. This stability in the proportions between the four categories is a sure sign that they are in a large measure based on economic or political necessity.

The above table is taken from a statement published by the Ministry of Finance. Here is another drawn up from data furnished by budgetary documents, but constructed on a somewhat different basis.⁸ We are here dealing with the estimated figures of revenue included in the draft budget for 1925.

The four categories of tax revenue are described as follows: taxes assessed on capital; taxes assessed on income from capital and on the produce of labor; taxes assessed on the circulation of wealth, distinguishing articles of current consumption from those that are

⁸ François-Marsal, *L'effort financier de la France*, 1924.

not of prime necessity; and lastly taxes designed for economic protection, that is to say, customs duties. Here are the results:

	1925 (Estimates) Per cent
Taxes assessed on capital	23.24
Taxes assessed on income from capital and on the produce of labor	28.27
Taxes assessed on the circulation of wealth:	
(a) Articles that are not of prime necessity	21.44
(b) Articles of current consumption	18.37
Taxes designed for economic protection	8.68
	<hr/> 100.00

IV. *The alleged insufficiency in France of direct taxes on income.*

The share of direct taxes in the system of war taxation was not, and could not be, a very large one, because a new scheme of taxes was in course of substitution for the old, and the substitution was effected under the most unfavorable conditions.

But it is currently held in fairly wide circles, both in France and abroad, that direct taxation is unduly light in France. As often happens, phrases are repeated in this connection that have lost, to an increasing extent, any truth they may have had at first; the form survives the substance, as a result of intellectual indolence.

Since the end of the War the yield of direct taxation has increased rapidly and considerably. The general tax on income, which had produced 51 millions of francs in 1916, the first year of its application, yielded 1329 millions in 1923, while its yield is estimated in the budget of 1925 at 2924 millions. The total sum to be derived in 1925 from the general tax and the tax by schedules, including the tax on the income from securities and credits, is estimated at 8 billions of francs, or 28.27 per cent of the whole anticipated tax revenue; in 1913 direct taxation had produced 18.7 per cent of the tax revenue. The proposals now before the Parliament involve a notable increase in the rates of the tax by schedules; the new rates will be 20 per cent, 15 per cent, and 10 per cent, according to the category of income, as against the present rates of 12 per cent, 9.6 per cent, and 7.2 per cent respectively. The absolute yield of the direct taxes and their proportion to the total tax revenue will therefore be materially increased if these proposals are adopted.

Even in present conditions, it has become difficult to maintain the allegation that the direct taxes are inadequate. No doubt, so long as a State does not succeed in meeting out of taxation all its charges, whatever the origin of these may be, it is possible to argue that its taxes are insufficient. But taken in itself, the French system of direct taxation has already reached a high degree of severity and productivity.

It is the comparison with the English system which has given, and continues to give, support to the doctrine that direct taxation in France is insufficient. For the financial year 1924-1925, the British income tax, super-tax, and the corporation tax gave a total yield of £354,616,000, or 51.4 per cent of the total tax revenue. Converted into francs, at 80 to 90 francs to the pound, this represents from 28.5 to 32 billions of francs, which is very much more than direct taxation produces in France.

But such comparisons are illusory, and call for the following observations:

(1) The category of registration and stamp duties is highly developed in France; it is substantially less so in England. The majority of the French registration and stamp duties operate as taxes on capital or income. If the two categories of direct taxes and stamp and registration duties are taken together, one finds that in England, for the financial year 1924-1925, they yielded about 63 per cent of the tax revenue; in France, according to the estimates for 1925, the percentage is about 52 per cent.

(2) The income tax has long been acclimatized in England and yields all that can be obtained from it. In France the process of acclimatization is still proceeding, and the personal tax still arouses keen opposition, which has its effect on the yield.

(3) The total of incomes is much higher in England than in France. It is doubtless very difficult to calculate what is called the national income, and still more to compare the incomes of two countries, especially when one of them has a depreciated and unstable currency. But some notion of the order of magnitude may be looked for in the figures put forward. The British income appears to lie between 3700 and 4100 millions sterling. At 80 francs to the pound this would represent from 296 to 328 billions of francs. The French income appears to be in the neighborhood of 130 to 140 billions of francs.

(4) Not only is the sum of the incomes not the same but their distribution is very different. England is a country of large fortunes; wealth there is much concentrated; in France it is widely disseminated. Owing to abatements at the lower end of the scale and to progressive rates, the income tax, other things being equal, is less productive in a country of disseminated wealth than in a country of concentrated wealth.

If the French and English systems of direct taxation are to be compared to any useful purpose, we must not confine ourselves to the yield, but look at the rates. In England as in France, there are two stages in the system of direct taxes. The first stage is constituted in France by the tax by schedules, in England by the income tax; the second is constituted in France by the general tax on income, in England by the super-tax. The rate of the tax by schedules has been up to now, but may not be much longer, lower than that of the income tax. On the other hand, the general tax, the superimposed tax, begins at a much lower level of income than the English super-tax, and its progressive scale rises much higher: it reaches 60 per cent for so much of the income as exceeds 550,000 francs, while the maximum super-tax is 30 per cent (on so much of the income as exceeds £30,000). The sums of the two series of taxes, tax by schedules and general tax in France, income tax and super-tax in England, gives in the former country a maximum impost of 72 per cent, in the latter 52.5 per cent.

The result is that, in a general way, small incomes are less rigorously treated in France than in England, while it is the reverse as regards large incomes, at least so far as concerns income from capital, on which the tax by schedules is the heavier.

In order to make this point clear, we shall set out some figures calculated by an expert of recognized competence, without however losing sight of the risk of error that such data involve, in particular because the net income liable to tax is not arrived at in the same way in the two countries. On an estate of £200,000 yielding him an income of £10,000 a year, the Englishman, married, with two children, pays 34.37 per cent of his income. On an estate of 13,000,000 francs yielding him an income of 680,000 francs, the Frenchman similarly situated in respect of family pays 53 per cent of his income. If to the tax on income we add the burden of succession duties on death,

supposed to be amortized in 25 years, we shall find that the Englishman pays 46 per cent of his income and the Frenchman 70 per cent.

The inequality to the disadvantage of the Frenchman arises here in what must still be considered a moderate range of incomes. On an estate of £20,000 and an income of £1000, the Englishman pays 13.5 per cent of his income in respect of income tax alone (at this level of income he pays no super-tax), and 18 per cent if we add succession duty amortizable in 25 years. On an estate of 1,360,000 francs and an income of 68,000 francs the Frenchman pays in the first case 17.6 per cent of his income, and in the second 25.1 per cent.⁹

The projected increases in the rates of the tax by schedules will increase the inequality to the disadvantage of the French taxpayer as regards incomes of the category and magnitude dealt with above, and will probably place the small French incomes, which have hitherto been let off comparatively lightly, in a similar position from a fiscal standpoint to the small English incomes.

We accordingly arrive at the following conclusion. A country like England, where wealth is great and fairly concentrated, can draw the greater part of its revenue from direct taxes on income. In a country like France, where wealth is less considerable and more disseminated, taxes on consumption must necessarily play a greater part, because this is the kind of tax by which the State can most easily get at the mass of small incomes which, in law or in fact, escape direct taxation or can be subjected to it only in a mitigated form.

Moreover the French system of direct taxation is far from perfect. It carries in itself certain causes of weakness which materially reduce its yield.

To begin with, there is a large gap in the fiscal return from securities, owing to the exemption of French Government stocks. French *rentes* are exempt from all taxes on securities. The National Defense Bonds¹⁰ are, moreover, exempt from the general tax on in-

⁹ François-Marsal, *L'effort financier de la France*, 1924. The reader may consult on the same question the daily *Bulletin de la Société d'Études et d'Informations économiques*, supplement of 25th February 1925, and J. F. Aris, *Les charges fiscales en France et en Angleterre* (*Revue politique et parlementaire*, April 1925).

¹⁰ The character of these bonds is explained in Prof. Jèze's monograph, which forms Part I of this volume. See also pp. 246 *et s.*

come. We need not discuss whether this is sound financial policy, and whether the State gains in the ease with which it sells these bonds what it loses in taxation. But from the sole standpoint of fiscal yield, we have here a source of substantial loss.

Further, the fact that the majority of French securities are to bearer affords great opportunities for evading taxation, both the general tax on total income and succession duty. Bearer securities cannot escape the tax by schedules because it is collected at the source, being deducted from the coupon. But general income tax and succession duty are based on the taxpayer's declaration, which the anonymous character of bearer securities makes it difficult for the State to check. However, the practice widely resorted to of depositing securities in banks and recent legislation with regard to opening safes after decease have placed the State in possession of means of checking declarations that are by no means ineffective. Moreover the legislator has sought to diminish the attractions of bearer securities by imposing a surtax on them. The tax by schedules is supplemented, as regards bearer securities, by what is called a transfer duty, the rate of which has been repeatedly raised, and which is frequently heavier than the schedule tax where the yield of the security is small. It is difficult to say whether the State recovers, by means of this supplementary tax, the equivalent of the sums of which the revenue is defrauded and by which these bearer securities benefit. But the supplement is undoubtedly considerable.

Lastly, the principle of the equality of all citizens in respect of taxation is scarcely observed in France.

Agricultural wealth is spared to an extraordinary degree, because the rural classes have a preponderant influence in politics. The land tax is based on revenue from land as assessed before the War, and systematically assessed very low; as a result the taxable revenue is today very far below the true revenue. Moreover, agricultural profits are estimated on the basis of the revenue from the land, so that they are taxed only on a fictitious figure, generally much below the real profits. At the sitting of the Senate of the 30th May 1919, M. Ribot quoted the case of profits realized by certain vine growers of the south of France amounting to 200,000 or 300,000 francs, which for taxation purposes were reckoned at some 20,000 francs only. There is a striking disproportion, having regard to the magnitude of French agricultural wealth, between the

yield of the tax on the profits of commerce and industry and the yield of the tax on agricultural profits. For 1925 the former is estimated at 1925 million francs, the latter at 61 millions. The inequalities thus created at the base, in the tax by schedules, react on the general income tax, and are thus much accentuated. Certain extremely lucrative liberal professions also enjoy, in fact though not in law, a privileged position; they are those of the barrister and the doctor, who have the double good fortune of being able to plead professional secrecy in order to avoid the investigations of the fiscal administration and of being brilliantly represented in the Parliament. The tax on wages, although only high rates of wages are affected, is likewise not seriously collected, as the authorities hesitate to disregard the opposition of the trade unions and the labor exchanges.¹¹

The principle of equality is inscribed in the forefront of the French constitution, but it is not in fact respected in the fiscal legislation of the country. Incomes of the same real amount are taxed by it very unequally. The objection to such practices is not merely that they exempt income that ought to be taxed. It is that they demoralize the taxpayer and make evasion where possible his normal line of conduct where taxes are concerned. The taxpayer who sees people richer than himself exempt from taxation, either by law or in fact, feels himself released in this respect from the obligation of loyalty to the State. Direct personal taxes, as they now exist in France, demand a substantial admixture of morality and political courage in public life, and their productivity cannot well be reconciled with an excessive desire to please the electorate or to spare one's own social class.

¹¹ The *bourses du travail* or labor exchanges are not in France government institutions, but the meeting place of trade unions.

[Translator's note.]

CHAPTER III

ADVANCES TO THE STATE BY THE BANK OF FRANCE AND THE BANK OF ALGERIA

I. *The precedent.*

It had long been currently accepted by the French public that the stock of gold held by the Bank of France constituted the country's war chest: but those who expressed this view were for the most part unaware of its precise meaning. It might be understood in the sense that the gold would serve directly to meet the first expenditure, the cost of taking the field; or again in the sense that the gold would provide a basis for the issue of forced currency, to which it would serve as a kind of moral guarantee; for the currency notes, both in law and in fact, would be inconvertible. It was in the latter sense that the Government understood the matter. There was a contract between the Bank and the State, laying down the conditions under which, in case of war, the Bank would make advances to the State, and the amount of these advances; under this contract, if the Bank made such advances, it was thereby released from the obligation of exchanging its notes for coin. Of all that may be held to constitute the economic mobilization of the country, this was the only part that had been foreseen and organized. There had been a previous experiment, the result of which was calculated to induce the State to adopt this policy of borrowing from the bank of issue. At the time of the Franco-Prussian war of 1870, advances had been made to the State by the Bank of France, amounting, in successive installments, to 1470 million francs.¹ These advances were effected by issues of additional currency, which were rendered possible by the suspension of the convertibility of bank notes. They were of great assistance to the State, which without them would have been unable to carry on the war, and they involved no perceptible or lasting impairment of the monetary system. The circulation never exceeded 3072 millions of francs, the figure reached on the 31st October 1873, and the depreciation of the notes was never such as to cause anxiety; at its highest the premium on gold was 24 to 25 *per mille*, during a very short period in October 1871, and from the end of 1873 onwards the

¹ The Bank's advances amounted to 1530 millions, but 60 millions advanced before the war must be deducted.

exchange became once more almost constantly favorable to France. Inconvertibility moreover did not last long; it was enacted at the beginning of August 1870, and although it was not terminated by law until the 1st January 1878, it had in fact ceased to exist as early as the second quarter of 1874. This experiment, conducted as it was on the occasion of a disastrous war, had led the authorities to contemplate without reluctance in the event of another war, the policy of recourse to Bank advances; it seemed the simplest and readiest method available of meeting the expenditure entailed by the opening of hostilities.

*II. Agreements of 11th November 1911 and agreement of
21st September 1914.*

The question of the advances that the Bank of France was to make to the State was regulated, at the time the War broke out, by two agreements dated the 11th November 1911, both of them extending over the remainder of the current period of the Bank's privilege, that is to say, until the 31st December 1920. The principal agreement contained the following provisions. The Bank undertook to place at the State's disposal a sum of 2900 million francs in the event of the Government's ordering either the general mobilization of the army, or a general mobilization of the navy and a partial mobilization of the army. Of these 2900 millions, 2400 millions were to be paid to the Treasury as demanded; the balance, 500 millions, was dealt with in the second agreement. The Bank was to receive and hold, as cover for these advances, three months' Treasury bills, dated the day of the advance. The interest on the advances was fixed at 1 per cent *per annum*. The Treasury bills thus delivered to the Bank might be renewed in whole or in part, provided that the period of renewal did not exceed the period during which the Bank was authorized to suspend the convertibility of its notes. The convention, apart from the clause relating to the 500 million francs dealt with in the special agreement to be explained below, came into force only if a law was passed authorizing the advance of 2900 million francs by the Bank to the Treasury, raising the amount of the authorized circulation by a like sum,² and releasing the Bank from the obligation of exchanging its notes for coin.

² The maximum circulation has been fixed by law since 1870; it was 6800 millions when the War broke out.

The second agreement related to the opening of credits in the branches of the Bank. It contained an undertaking by the Bank to hand to the Minister of Finance, on demand, letters opening credits in his favor in the branches and subsidiary offices of the Bank up to a total of 500 million francs, this sum forming part of the total advance of 2900 millions contemplated by the first agreement. The list of branches and subsidiary offices selected and the amount of the credit to be opened at each was communicated confidentially by the Minister of Finance to the Bank. The special purpose of this second agreement was to give the Government, in the event of mobilization, the funds immediately required at the various points where troops would be concentrated. Accordingly the operation of this agreement was not subordinated, as was that of the first agreement, to the adoption of a law raising the limit of the fiduciary circulation and suspending convertibility. The provisions relating to the cover for the credit granted by the Bank were the same as in the first agreement: three months' Treasury bills carrying interest at 1 per cent *per annum* were to be delivered to the Bank.

The total advance of 2900 million francs contemplated by the two conventions was not to be reckoned as part of the amount of the remunerative circulation on which the duty paid by the Bank to the State was calculated; but the Bank undertook to pay to the State, on the 1 per cent interest charged to the State in respect of the advances, a duty which reduced the effective rate of interest to 0.875 per cent *per annum*.

The magnitude of the expenditure incurred during the first weeks of the War and the difficulty experienced by the State in finding funds elsewhere after the first military reverses and the invasion, forced the Government to apply to the Bank for a further advance within two months of the opening of hostilities. This was the subject of the agreement of the 21st September 1914, the meaning of which is explained by a letter addressed to the Governor of the Bank on the 18th September by M. Ribot, Minister of Finance.

The Bank undertook, by the agreement of the 21st September, to place a further advance of 3100 million francs at the State's disposal, making in all a sum of 6 billions of francs. The conditions relating to the provision of cover by means of Treasury bills delivered to the Bank, to the renewal of these bills, and to the duty

payable by the Bank on the interest due by the State, were the same as in the previous agreements. But the agreement of the 21st September contained some important new provisions, which were applied to subsequent advances.

(1) By the terms of Art. 3, the State undertook to repay the advances paid by the Bank within as short a time as possible, either out of ordinary budgetary revenue, or out of the proceeds of the first loans, or out of any other extraordinary resources that might be available. The letter of the 18th September from the Minister of Finance to the Governor of the Bank shows the origin of this provision. The Bank would have wished to fix from the outset a period for repayment. But the Government thought it impossible in the circumstances to engage itself for a fixed term, and confined itself to the promises to repay as early as possible. The following are the most interesting passages of the ministerial letter: "You have drawn my attention to the anxiety of the Regents of the Bank that the reimbursement of these advances to the State should be assured as soon as possible after the conclusion of peace. I entirely share their view. Nothing would be more fatal than to yield to the temptation of deferring this repayment in order to avoid contracting the necessary loans and to profit by the low rate of interest on the State's debt to the Bank. The credit of the latter would suffer severely from so short-sighted a policy. What constitutes the strength of the credit of the Bank and enables it to furnish to the State in war-time the funds that it needs is the fact that in normal times the banknote circulation is entirely guaranteed by the stock of bullion and by the Bank's holding of commercial bills. The credit of the Bank and the credit of the State must be kept distinct, and when a crisis such as prevails to-day obliges the State to have recourse to the Bank, it can do so without danger only on condition that the normal situation is restored at the earliest possible moment. You may give the Council of Regents the assurance that the reimbursement of the State's debt will be effected without avoidable delay, either from ordinary budgetary revenue, or out of the proceeds of the first loans contracted, or out of other extraordinary resources that may be at our disposal. There is no reason to doubt that the Chambers will ratify the undertaking which I am giving the Bank on behalf of the whole Government. You will have no difficulty in

explaining to the Council of Regents that I am not in a position to fix at present, in discharge of this undertaking, the term of reimbursement. We do not know what will be the financial situation on the morrow of the conclusion of peace, and it would be imprudent to bind ourselves by engagements that we are not sure of being able to observe with exactitude."

(2) All the advances granted by the Bank were to be repaid to it in coin or in bank notes. This, in reality, seems an unnecessary stipulation, seeing that coin and bank notes alone are legal tender. The Bank, by this statement of what went without saying, wished to preclude any possibility of repayment in the form of *rentes* or other Government securities.

(3) The interest on the advances remained fixed at 1 per cent, as in the agreement of 1911. But, to provide an incentive for the State and to make the postponement of repayment less attractive, it was agreed that after a year from the cessation of hostilities, the current advances should not be renewable except at 3 per cent. This had the effect of reducing the gap between the rate of interest on the Bank's advances and the interest on the loans that the State would have to contract if, as in fact happened, it was unable to effect the repayment out of ordinary revenue. The agreement of 1914, however, did not allow the Bank to benefit by the whole of this supplementary interest; in no case, said Article 5, shall this additional 2 per cent interest be included in the profits distributable to the Bank's shareholders. Its proceeds were to be assigned to a special reserve account with a double object. It was to meet in the first place any losses that might accrue on commercial bills immobilized by the moratorium.³ Any balance was to be set against the advances of the Bank to the State. An automatic sinking fund was thus set up which, in fact, operated to a substantial extent.

III. *Agreements subsequent to 1914 and the system of repayment of the Bank's advances. Advances by the Bank of Algeria.*

The advance of 6 billions of francs authorized by the agreements of 1911 and by that of the 21st September 1914 did not prove

³ The moratorium on commercial bills (decree of 31st July 1914) had the effect of immobilizing commercial paper to an amount which, at one moment, reached 4400 million francs. It was liquidated with few losses; the amount outstanding at the end of 1924 was reduced to 8,670,000 francs.

sufficient. Successive agreements raised the amount of the authorized advances by installments of 3 billions. So far as the period of the War is concerned, they were dated the 4th May 1915, 13th February and 2nd October 1917, 4th April and 5th June 1918. The total authorized during the actual course of the War thus reached 21 billions, the amount realized remaining throughout a little below the authorized figure. Recourse to the Bank did not come to an end with hostilities; agreements of the 13th February 1919 and the 24th April 1919 authorized two further installments of 3 billions, bringing the total up to 27 billions of francs.

The following table shows the sums effectively advanced at the end of each of the years 1914-1919.

	<i>Millions of francs</i>
End of 1914	3,900
End of 1915	5,000
End of 1916	7,400
End of 1917	12,500
End of 1918	17,150
End of 1919	25,500

The total advanced would have been considerably greater had the State not made substantial repayments to the Bank each year. Each of the four funding loans contracted in 1915, 1916, 1917, and 1918 was made the occasion for the reimbursement by the State of a portion of its debt. The report of the Bank of France on the transactions of the year 1918 places the total reimbursements effected since the outbreak of war at 8850 million francs, most of these reimbursements having followed the funding loans, and a credit of 200 million dollars on the United States Treasury having also been ceded to the Bank. Out of the loan of 1915, 2400 million francs were repaid to the Bank; out of that of 1916, 2200 millions; out of that of 1917, 300 millions; out of that of 1918, 2500 millions; or in all 7400 millions out of the proceeds of the four war loans.

It may no doubt be thought that these successive repayments were a meaningless formality, since the lack of funds obliged the State, after repaying, to apply to the Bank for fresh advances. But the Bank attached extreme importance to the reimbursements, seeing in them the confirmation of the principles solemnly affirmed by the agreement of 1914. The amount added during the year to the

total of the advances outstanding at the end of the preceding year steadily increased throughout the period in question, except in 1918, when the addition to the sum advanced was less than in 1917. The following figures show for each of the years 1915-1919, the amount by which the total outstanding at the end of the year exceeded the total outstanding at the end of the preceding year.

	<i>Millions of francs</i>
End of 1915	1,100
End of 1916	2,400
End of 1917	5,100
End of 1918	4,650
End of 1919	8,350

It appears from these figures that the year 1919, notwithstanding that hostilities had ceased, saw a larger increase in the amount of the Bank's advances than the most onerous of the preceding years; and yet in this year too there were repayments by the State amounting to 1350 million francs. The State might, no doubt, find excuses for this continued and aggravated recourse to advances by the Bank after hostilities had terminated, notably in the formidable process of liquidation which it had to face, in the cost of the demobilization that had just begun, in the withdrawal of the local paper money issued in the northern area during the German occupation, and in the change of the monetary system in Alsace-Lorraine; nevertheless we have here a symptom of bad financial administration. Had a vigorous attempt at fiscal reform been undertaken in 1919, instead of being postponed till 1920, a less extensive issue of paper money would have been required, and the inflation, which was already a source of danger, need not have been so much increased.

The Bank of France protested against this policy. Its perilous character had already been pointed out in the report of the Governor on the Bank's operations during 1918 (general meeting of shareholders on 30th January 1919): "Your General Council has never concealed from itself the objections to a rapid and considerable increase in the issue of bank notes. It has repeatedly drawn the attention of the public authorities thereto. But at the tragic moments when the country's destiny was at stake, confronted as they were with demands justified on each occasion by the imperative requirements of national defense, your Council could not hesitate to

accede to them, nor could it restrict in any way the coöperation of the Bank in financing the War." The report on the operations of 1919, submitted to the general meeting of shareholders on the 29th January 1920, expressed, discreetly but forcibly, the remonstrances that the Bank had thought it its duty to address to the authorities when it was seized in the course of the year of fresh applications for advances. "It is important," the report states, "that the country should grasp the following truth: its economic and financial recovery will be a matter of singular difficulty so long as the monetary situation has not been restored, and the first condition of this restoration is that the Treasury should be enabled to meet all demands upon it without recourse to issues of paper money."

In its resistance to fresh issues, the Bank at this time felt that it had the support of all the more enlightened elements in public opinion, and of a section of the Parliament. And, indeed, the two applications made by the State in 1919, though they were acceded to under pressure of necessity, were not granted with the same ease as before, nor was the second granted on the same conditions as the earlier advances. When, for the second time in 1919, the General Council received in April a demand from the State proposing to raise the authorized maximum from 24 to 27 billions of francs, it began by refusing. It accepted the agreement of the 24th April on the condition that the fresh advance of 3 billions of francs should be strictly temporary, and should be repaid out of the proceeds of the first loan issued. When once it had been repaid, the advance was not to be again available, so that the authorized maximum would drop once more to 24 billions.

As the State was not in a position to repay this advance out of the first of the two loans of the year 1920, an agreement of the 14th April 1920 prolonged the agreement of the 24th April 1919 until the 31st December 1920. A further prolongation, until the 31st December 1921, was granted by the agreement of the 29th December 1920.

These two conventions of the 14th April and 29th December 1920, while prolonging the period during which the maximum of 27 billions continued to be authorized, also settled the general scheme of repayments to be made by the State. The latter was to reimburse at least 2 billions of francs a year, the total of advances authorized

being reduced by that amount on the 31st December of each year. The first of the repayments contemplated was actually effected at the end of 1921 and the total of the advances authorized was reduced to 25 billions from the 1st January 1922. But owing to difficulties experienced in the provision of funds, it was not found possible to conform strictly to the scheme adopted in 1920.

The delay in effecting the contemplated reimbursements is one of the consequences of the default of Germany. When the agreement of the 14th April 1920 was made, there was ground for counting on the regular payment of reparations by Germany, and the French State acted reasonably in giving undertakings to the Bank, which, if they had been strictly carried out, would have extinguished its debt by the end of 1932. Germany's default made it impossible to carry out these undertakings.

The advances made from 1915 to 1919 were subject to the conditions laid down in the conventions of 1911 and 1914. Certain changes in regard to the rate of interest should however be mentioned. The agreement of the 26th October 1917, concluded on the occasion of the renewal of the Bank's privilege, raised to one-half the proportion levied by the State on the interest of 1 per cent provided by the agreement of 1911; the supplementary interest of 2 per cent provided by the agreement of the 21st September 1914 remained as before assigned in its entirety to the reserve account and sinking fund set up by the said agreement; accordingly out of the 3 per cent interest now paid by the State, the Bank receives only 0.5 per cent. The agreement of the 13th February 1919 reduced to 0.75 per cent the interest on the new advance of 3 billions authorized by it, and of this the State, in accordance with the rule laid down in 1917, retains one-half. Finally as regards the temporary advance of 3 billions authorized by the agreement of the 24th April 1919, the Bank undertook to pay the whole of the interest it received to the reserve and sinking fund accounts.⁴

The State also applied to the Bank of Algeria for advances. These had been provided for by the agreement of the 30th November 1911, which fixed their maximum at 100 million francs; this maximum was raised to 200, and then to 300 millions by the agreements

⁴ The Bank of France did not advance money to the French State alone; the latter also made use of it to make advances to certain Allied States, in

of the 6th September 1915 and 3rd June 1918. The sums actually advanced amounted to 235 millions, and were completely repaid in the course of 1920. The following is a table of the advances and repayments:

	<i>Advanced</i> (millions of francs)	<i>Repaid</i> (millions of francs)
1914	25	..
1915	50	..
1916	..	50
1917	60	..
1918	130	..
1919	20	..
1920	..	235

IV. Effect on the currency of the advances obtained from the Bank of France. Forced currency and inflation.

When a State demands advances of a certain magnitude from a bank possessing the right of issue, the bank is able to make those advances only by issuing notes, and as these notes are not issued to meet commercial requirements, they can be maintained in circulation only under legal compulsion; so that to finance a war by means of advances from a bank of issue necessarily means inflation and forced currency. Inflation and forced currency dislocate the monetary system. The War of 1914 gave rise to the most gigantic and most disastrous experiment in depreciation of currency that was ever tried,

fact to Russia. Although these advances did not constitute war expenditure from a budgetary standpoint, they should be mentioned. The system of these advances was settled by inter-allied agreements of the 5th February and 4th October 1915. The Minister of Finance delivered French Treasury bills to the Bank on behalf of the Russian Government; they were renewable every three months and the Bank discounted them at the current rate. The true debtor to the Bank is therefore the French Government. The account continues to grow owing to the capitalization of the interest. In the balance sheet of the Bank it appears under the head of "French Treasury bills discounted for the purpose of State advances to foreign governments," and at the end of 1924 amounted to 4872 millions of francs. In virtue of the agreement of the 26th October 1917, 85 per cent of the proceeds of the discount of French Treasury bills for foreign Governments is carried to the reserve and sinking fund account above mentioned.

Advances were made to other Governments than that of Russia, but under other forms.

in respect both of the extent of territory that it covered and of the degree of depreciation that was reached in various countries. But this is not the place to narrate the course of this experiment.

In France, all the agreements authorizing advances by the Bank to the State simultaneously raised the limit of the note issue.

The limit of issue before the War was 6800 million francs (law of 29th December 1911). The law of the 5th August 1914 approving the agreements of 1911, which had hitherto been kept secret, fixed the limit at 12 billions of francs; at the same time it established forced currency. By successive steps, concurrently with the authorization of fresh advances, the limit of issue was further extended. This was done at first by decrees: the law of the 5th August 1914 empowered the Government to carry the limit, by decrees approved in Council of State on the proposal of the Minister of Finance, beyond the 12 billions of francs which it fixed. This was the procedure followed until the law of the 5th March 1919 repealed the above provision of the law of the 5th August 1914. Since then a law has been required to fix the total issue, as was the case before the War. The law of the 17th July 1919 fixed the total at 40 billions of francs. The law of the 31st July 1920, however, empowered the Government, in the absence of the Chambers and during 1920 only, to raise the limit to 43 billions by decree approved in Council of State on the proposal of the Ministry of Finance, but only to meet the requirements of commerce. The Government made partial use of this power by the decree of the 28th September 1920, and raised the authorized issue to 41 billions. The limit was fixed at 45 billions by the law of the 15th April 1925, and subsequently at 51 billions by that of the 27th June 1925.

The circulation increased concurrently with the advances by the Bank. In 1913 the maximum had been 6022 millions of francs; in July 1914 it was 5912 millions; at the end of each of the years 1914-1919 it was as follows:

	<i>Millions of francs</i>
End of 1914	10,042
End of 1915	13,216
End of 1916	16,580
End of 1917	22,336
End of 1918	30,250
End of 1919	37,275

The stock of gold now bears a much smaller ratio than before the War to the notes in circulation. At the end of 1913 the ratio was 61.5 per cent. In the balance sheet of the 23rd July 1914, as a result of measures taken by the Bank to strengthen its position, the ratio was 69.4 per cent. At the end of 1924, against a circulation of 40,603 millions of francs, the stock of gold was 3680 millions, which gives a ratio of 9 per cent. It is true that the Bank of France shows in its balance sheet, alongside of the gold in hand, gold held abroad, and that the two headings together amounted at the end of 1924 to 5545 millions of francs. But the gold held abroad is not at its disposal; the Bank of France is owed that gold and can recover it only to the extent that the French Treasury repays the advances made to it by Great Britain, for which the gold despatched to England served as cover; it cannot therefore be considered as a component part of the security for the note issue. Moreover, even if it be included, the ratio of gold to circulation is only 13.6 per cent.

It was the State's recourse to Bank advances that was the initial cause of the inflation and consequently of the rise of prices. Never have the evils of all kinds that result from depreciation of the currency been more strikingly manifested than in Europe today; and France is not, far from it, the country that has, so far, suffered most from this affliction. On the occasion of the war of 1870, the issue of forced currency notes did not seriously impair the national economy. When the issue is not excessive in amount, when there is an evident likelihood that the State debt will be discharged fairly promptly and that forced currency will come to an end, and finally when the national wealth remains practically intact, recourse to the printing press is not attended with serious or lasting consequences. These were precisely the conditions prevailing on the occasion of the war of 1870. It is not so today. Inflation has let loose economic and social evils that it will take years to cure; evils that will leave permanent traces, of which the most serious is the lowering of the standard of life in the middle class, that cultivated middle class which was one of France's principal sources of strength.

All this would have been avoided had it been possible to resort to taxation with sufficient vigor and promptitude to render the issue of paper unnecessary, at least after the first weeks of the War. Taxation would not even have had to supply the 25 billions of francs obtained between 1914 and 1919 through the advances of the Bank,

for the rise of prices would not have been so great and the State expenditure would have been less. France was on an inclined plane: the continuous issue of bank notes started a rise of prices; this in turn increased the expenditure and rendered necessary an ever greater issue of notes. Everything depended on keeping off the declivity, on avoiding the vicious circle from which it is so hard to escape. But we have already explained the reasons that made it extremely difficult to resort to taxation on the outbreak of war, and forced the Government on to the incline, the dangerous nature of which, moreover, was not very clearly perceived.

However, it was not in the early days of the War that the Government made an improper use of paper money. By creating the National Defense Bonds as early as September 1914, it manifested its desire to have direct recourse to savings rather than to the Bank of France, and their success enabled it for a considerable length of time to resort somewhat sparingly to the issue of notes. At the end of 1914 the State had applied to the Bank for only 3900 millions of francs out of the 6 billions authorized by the agreement of the 21st September 1914; at the end of 1915 the advances still amounted only to 5 billions of francs. A better fiscal policy at that moment, great as were the difficulties in its way, might perhaps have made it possible to increase the circulation comparatively slowly, whereas on the contrary it was from that moment that a great acceleration took place in its rate of growth: the advances reached 7400 million francs at the end of 1916; 12,500 millions at the end of 1917; 17,150 millions at the end of 1918. The most disastrous year was 1919, during which, although hostilities were at an end, the advances were increased by 8350 millions and reached a total of 25½ billions of francs at the end of the year; a year of deplorable financial administration, during which the effort to increase taxation and the effort to reduce expenditure were postponed and no funding loan was raised. The financial administration of 1919 greatly aggravated the difficulties of France.

CHAPTER IV

TREASURY BORROWING

I. The part played by Treasury borrowing in normal times and in war.

EVEN in normal times and in a State whose financial administration is sound, very short term loans supplied through the Treasury cannot be dispensed with: they are a perfectly correct and regular element in public finance.

For, even if the State budgets are balanced, the incomings may not exactly coincide, throughout the financial year, with the outgoings. Neither the former nor the latter are evenly spread over the year. Like business firms and private persons, the State needs working capital, a fund at disposal into which the revenue is paid and out of which the expenditure is defrayed. This fund at disposal, this working capital, this cash in hand, is supplied to the State by the Treasury.

It happens moreover, even during periods of good financial administration, that some budgetary years are less favorable than others. An economic or financial crisis may develop, which reduces revenue and deprives the State of part of what it was justified in counting on; or again, unforeseen events may oblige the State to incur exceptional expenditure. The balance of the budget is thus upset; if the deficit is not very considerable, and does not appear likely to recur in the following years, the Government will very properly hesitate to impose new taxes or to increase those which exist, in order to meet a temporary situation; nor will it be disposed to issue a perpetual or long term loan for a comparatively small sum. The Treasury accordingly deals with the deficit; it meets it out of its resources, pending the time when a surplus on the budget enables the State to repay its advances.

Treasury resources therefore, in normal times, provide the State with the working capital required for any monetary transactions and enable it to tide over a deficiency either from one period to another of the same financial year, or from one financial year to the next. The Treasury is a kind of banker charged by the State with

its payments and its recoveries, to whom, if occasion arises, it applies for temporary accommodation.

The banker, in order to lend, borrows, and that is what the Treasury does. The funds of which the Treasury disposes come from three sources:

(1) Certain public institutions are empowered or required to pay over their available funds, in whole or in part, to the Treasury; for instance the communes, the departments, the *Caisse des Dépôts et Consignations*,¹ and the *Crédit Foncier*.²

(2) The *Trésoriers-payeurs généraux*³ have a current account of advances at the Treasury.

(3) The Treasury draws on the capital of the public by issuing short term obligations: Treasury bills and Treasury obligations.

These short term loans contracted by the Treasury, in its capacity of State banker, constitute what is called the floating debt,⁴ a debt of constantly varying amount whose component parts are being perpetually renewed, obligations which fall due being replaced by similar obligations. Before the War, the floating debt of France was of the order of 1½ to 2 billions of francs.

The War enormously increased the floating debt. In war-time the tendency is to live by provisional arrangements. It is easier to procure funds by short term borrowing than by perpetual or long term loans; the latter require the ground to be prepared, and a conjunction, artificial or fortuitous, of favorable conditions. Treasury borrowing is like a tap drawing on the mass of available capital; capital that the owners might hesitate to invest for a long period and that is attracted by the very shortness of the commitment; capital that the war itself supplies, renews, and increases, because the expenditure of the State translates itself into profits, indemnities, or wages, and because the constant creation of new means of

¹ The Government office in which are concentrated all sums of money deposited either voluntarily or by order of the Courts. [Translator's note.]

² A bank which, under Government supervision, lends money on real estate. [Translator's note.]

³ Officials, in each geographical department, who receive the State revenues and make payments on its behalf. For this system of advances, see below, p. 243. [Translator's note.]

⁴ In the strict sense of the expression, the floating debt does not comprise Treasury obligations, which, although short term loans, are yet for a longer term than Treasury bills.

payment throws into circulation a wealth of paper which seeks profitable investment. It is a dangerous slope on which the State thus sets its foot. When once the floating debt has established itself in the finances of a State, it is difficult to dislodge. If the Government has been unwilling or unable to fund it progressively from the outset, so as to transform it, as it grew, into a long term debt, it becomes increasingly difficult to do so: there are obstacles on the side of the State, which finds it convenient to draw for budgetary purposes on this great reservoir, with which it has improved its communications; there are obstacles on the side of the public, which has adopted the habit of these short term loans and is fully conscious of the advantage of a system of investing its savings that involves no commitment, since the capital remains so to speak at the owner's disposal, if he has taken care to spread the maturities judiciously.

Earlier wars had revealed the increasing abundance of the resources at the Treasury's disposal; the War of 1914 displayed this phenomenon, like others, on a scale far surpassing anything previously seen.

France had recourse to three kinds of short term loans. It revived a form of advance that had well-nigh ceased to exist, advances by the *trésoriers-payeurs généraux*.⁵ It issued, under the name of National Defense Bonds, Treasury bills possessing certain special characteristics. And it issued Treasury obligations under the name of National Defense Obligations.

II. *Advances by the trésoriers-payeurs généraux.*

The *trésoriers-payeurs généraux* played an important part when they were first created under the name of *receveurs généraux* and during a portion of the nineteenth century. They were not merely officials charged with the recovery of the taxes, but bankers who advanced funds to the State. A decree of the 16th July 1806 had required them to pay over to the Government account all sums recovered under the head of taxes as soon as encashed, whereas previously they had been obliged to make these payments only from the seventh month of the year and by twelfths; these advance payments had been considered as constituting personal advances by them to the State and carried interest in their favor. Further, in

⁵ See note 3, p. 242.

order to increase the amount that they could place at the State's disposal, they were authorized to receive deposits from private persons and to carry out certain banking transactions on behalf of the public, such as the purchase of securities for cash; they thus gathered a number of clients about them and had funds available that they could lend to the State, their profits being the difference between the interest that they received from the State and the interest that they paid to their depositors.

The rôle of State bankers that the *trésoriers-payeurs généraux* thus assumed proved of considerable importance; under the Empire and the Government of the Restoration they kept the Treasury supplied with funds. Then little by little this function became less important, and in the years previous to the War it had dwindled to practically nothing. The improved credit of the State had enabled it to dispense with the banking services of the *trésoriers-payeurs généraux*. The Treasury now had at its disposal varied and abundant resources which cost it very little. The provisions requiring the *trésoriers-payeurs généraux* to advance a minimum sum to the State had been allowed to fall into desuetude; the interest paid on these advances had been lowered, and was finally equal to the interest on Treasury bills. The *trésoriers-payeurs généraux*, who had formerly constituted a financial aristocracy, treated with consideration by the State because the State required its services, had declined to the position of officials on reduced emoluments, an object of democratic suspicion. The account of their advances to the Treasury showed a total of only some 30 million francs (27,800,000 francs on the 31st July 1914).

During the first months of the War it naturally occurred to the State, confronted as it was with a difficult financial situation, to revive the banking functions of these officials. The decree of the 11th December 1914 enacted two measures for this purpose, whose character is explained in the introductory report of the Minister of Finance:

"The advances by the *Trésoriers-payeurs généraux*, drawn from their private funds and from sums deposited with them, have for a certain number of years not exceeded a total of some thirty million francs.

"But the needs of the hour are pressing, and the time appears to

have come to develop by new measures, limited for the moment to the period of hostilities, the amounts deposited in the local treasury offices, so as to supplement the resources drawn from the National Defense Bonds, which have been so favorably received by the public.

"We have thought it advisable, to begin with, in order to secure this result, to increase the already very real security offered to depositors. Seeing that the private deposit accounts are intended not only to provide the public with temporary facilities for investment, but also to render valuable assistance to national finance, it is reasonable, without repudiating the essential principles that govern the matter, to bring into play the subsidiary responsibility of the State itself, at least during the War.

"Further, although the acceptance of funds from banks and credit establishments on current account was prohibited in 1909, a return to the former state of things does not appear to be impossible, provided that the disadvantages that were formerly pointed out are obviated by certain regulations. It is not desirable that our accounting system should be utilized as a convenient method of transmitting bank funds; nor that the Treasury be burdened with the payment of interest on sums, the deposit of which, owing to its extremely short duration, has been of no appreciable service to it.

"As for interest, the rate will continue to be fixed by the Minister of Finance; $2\frac{1}{4}$ per cent does not appear for the moment excessive, but it goes without saying that the increase on the present rate of $1\frac{3}{4}$ per cent must accrue to the depositors and not to the accountants, who will find an indirect remuneration from the mere increase in the deposits. Those accountants, however, whose offices do a specially heavy business and already earn the maximum commission laid down by the regulations, namely, 28,000 francs, will not profit by this increase; we think it desirable, in the interests of the Treasury itself, that an allowance should be granted them, under conditions to be fixed by *arrêté*, in consideration of the extra work and expense entailed by the movement of funds payable at sight. A special provision for this purpose has been included."

The decree of the 11th December 1914, ratified by the law of the 26th December, accordingly enacted the following measures:

(1) From the 11th December 1914 and for the duration of hostilities, the repayment of sums deposited in the offices of the *trésor-*

riers-payeurs généraux or of the *receveurs particuliers des finances*⁶ was subsidiarily guaranteed by the State, which became responsible for them as well as the officials receiving the deposits.

(2) In order to stimulate the zeal of the officials, the interest assigned to *trésoriers-payeurs généraux* on their private funds or on deposits paid over by them to the Treasury was excluded from the limitation on total emoluments laid down by the regulations in force; the commission on the issue of National Defense Bonds was similarly excluded.

These measures increased very substantially the amount of the advances made by the *trésoriers-payeurs généraux*; but the sums they procured formed a very small part in the total of Treasury borrowings. At the end of 1919 these advances amounted to 285 million francs.

III. National Defense Bonds.

The principal Treasury resource since 1914 has been the issue of National Defense Bonds. These are Treasury bills possessing certain special characteristics. The Treasury bill is a very ancient method of raising money, which was adopted before any legal text officially recognized its existence; the first law to do this was that of the 4th August 1824, the object of which was, while confirming an established practice, to restrict the powers of the Minister of Finance by fixing the maximum amount of bills that might be issued. "The Minister of Finance," says this law, "is authorized to issue for Treasury purposes and for negotiations with the Bank of France, royal bills bearing interest and payable at a fixed term. The royal bills in circulation may not exceed 140 million francs." Since 1824 the rule that the issue of Treasury bills is limited has figured in all the finance laws, but the limit has risen with the rising total of the budgets. The last pre-war finance law (of the 15th July 1914) had fixed the maximum amount of Treasury bills in circulation at 600 millions. The old royal bills, now Treasury bills, are obligations for a very short term, from one to three months at the option of the applicants; they carry interest paid in advance in the

⁶ The *receveurs particuliers des finances* are State accountants, one in each *arrondissement*, subordinate to the *trésoriers-payeurs généraux*.

[Translator's note.]

form of a deduction from the purchase price, the amount of which is fixed by decision of the Minister of Finance.

Of all the Treasury resources, the issue of Treasury bills is the most elastic. In a rich country, where there is always a considerable quantity of floating capital that does not seek a permanent investment but short term employment, slight variations in the rate of interest allocated have the effect of increasing or diminishing, according to the needs of the moment, the applications for Treasury bills. The Minister of Finance has thus the means of adapting the inflow of capital to the circumstances, according as these, in the course of the year, increase or diminish his immediate needs for funds. In reality, before 1914, Treasury bills were unknown to the public at large, or nearly so: applications for them came from the banks, the railway companies, and a few great firms, which, having funds at their disposal that they did not wish to immobilize, found in these bills a convenient method of temporary investment.

In the first weeks of the War, it occurred to the Minister of Finance, M. Ribot, to increase the amount that the State drew from Treasury bills by inviting the public to make application for them. This was the object of the decree of the 13th September 1914. The report prefixed to its text makes the intention clear. "The amount of Treasury bills in circulation does not at present exceed 350 million francs. It is thus far below the figure that it might reach. The Treasury needs funds and cannot draw them solely from the Bank of France. It therefore appears to us advisable to have recourse to the public for the issue of a part at least of the bills that we are authorized to put into circulation. This involves a change in our financial habits and procedure. Treasury bills have hitherto been confined in practice to a restricted clientèle composed mainly of credit establishments, banks, chambers of commerce, etc. As the funds of such establishments are at present for the greater part immobilized, we cannot for the moment apply to them. Moreover it would be desirable that the Treasury, which formerly had its own clients through the agency of the *trésoriers-généraux*, should gradually resume contact with them, and even endeavor to increase their number by placing Treasury bills within reach of the public. . . ."

This was an experiment; the limit of issue of the bills, which had been fixed at 600 million francs by the finance law, and raised to

940 millions by a decree of the 1st September 1914 approved in Council of State, was not changed. The experiment succeeded, probably even beyond the hopes of its promoters. The limit of 940 millions was passed before the end of November, and a decree of the Council of State raised it to 1400 million francs; on the 15th December the total of the bills subscribed in France was 1,059,371,400 francs, and bills for 102 millions had been issued in England and the United States. The success of the bills has since then steadily increased.

The bills provided for by the decree of the 13th September 1914 were for amounts of 100, 500, and 1000 francs; they were for three, nine, or twelve months; the rate of interest, which was to be decided by the Minister of Finance, was fixed uniformly at 5 per cent free of taxes, irrespective of the different terms; but this practice was subsequently changed and the rate was graduated according to the period of the bill. The fundamental innovation lay in the series of measures adopted to facilitate and extend subscriptions: these, according to Article 2 of the decree, might be made through the direct accountants of the Treasury, through the collectors of the financial departments, and through the post offices. The policy pursued consisted in multiplying the offices at which the public could pay in its money and ask for bills. The zeal of the officials charged with their issue was stimulated by means of commissions; the Bank of France and other credit establishments lent their assistance. Whereas the old Treasury bills were somewhat remote from the public, the new bills, called National Defense Bonds, were placed within its reach, and made available at every office, while constant propaganda ensured their sale to ever wider circles and to an ever-growing amount.

Holders of these bonds were granted preferential rights in subscribing to all future loans. In virtue of Article 1 of the decree of the 13th September, National Defense Bonds were to be accepted in payment of subscriptions to all future loans, with preferential rights; the bonds were, for this purpose, accepted at par less the interest, if any, in respect of the remaining period of their currency.

The Bank of France undertook, at the request of the Government, to discount the bonds if they had not more than three months

to run, and to accept them as security for advances, whatever the date of their maturity might be, up to 80 per cent of their value. Possessing the right both of discounting them and of borrowing on them, the holders had, in these bonds, assets of an extremely liquid character.

The decree of the 13th September 1914 determined the essential features of the National Defense Bonds. Subsequently, the rate of interest, which had at first been uniformly 5 per cent, was lowered for six months bonds to $4\frac{1}{2}$ per cent and for three months bonds to 4 per cent; and one month bonds were instituted carrying interest at $3\frac{1}{2}$ per cent; at the beginning of 1922, by the *arrêté* of the 25th February, interest was reduced on all categories of the bonds by $\frac{1}{2}$ per cent, but in February 1923 the previous rates were resumed, except for one month bonds, the rate on which remains fixed at 3 per cent.

According to the letter of the decree of the 13th September 1914, ordinary Treasury bills should have ceased to exist. For Article 1 of the decree reads as follows: "Treasury bills issued from this day onwards and while hostilities last shall be inscribed 'National Defense Bonds.' . . ." But in practice ordinary Treasury bills continued to be issued alongside of those styled National Defense Bonds.

The Minister of Finance, who created the National Defense Bonds, does not appear at the outset to have fully realized the striking success that awaited them. It was an ingenious and happy idea to have direct recourse to the floating and available funds of the public at large, and effect was given to it at the right moment. But the Minister seems to have had in mind that the recourse provided by these bonds would be of a temporary nature, pending the issue of funding loans; in the explanatory statement attached to the bill granting provisional credits for the first half of 1915, after having recalled the creation of the bonds and the favorable way in which they had been received by the public, he went on to say: "But the funding loans have only absorbed a portion of the bonds in circulation, and that portion has become relatively smaller and smaller, so that the total of the bonds in circulation has constantly increased."

The following are the yearly amounts obtained by the issue of

National Defense Bonds from 1914 to 1919 (net amounts, after deduction of bonds paid off) ; ordinary Treasury bills are included.

	<i>Thousands of francs</i>
1914 (second half)	1,618,850
1915	7,985,786
1916	12,371,961
1917	12,630,695
1918	16,428,931
1919	25,020,177

The total of the funds procured during the years 1914-1919 through National Defense Bonds and ordinary Treasury bills thus exceeds 76 billions; which indicates the important rôle played by them in French war finance.⁷

In the above figures the bonds paid in as subscriptions to the funding loans have not been deducted. The total amount in circulation at the end of 1919 is not the sum of the amounts annually issued: from 1915 to 1918 (there was no funding loan in 1919) the National Defense Bonds surrendered as subscriptions to the loans amounted in round figures to 22,783 millions of francs.

The bonds were accordingly one of the principal resources of the French State during the War, and have remained ever since a very important financial instrument. No statement is regularly published of the amount of bonds in circulation; it is in the neighborhood of 50 billions of francs.⁸

This direct appeal to the public to take up Treasury bills was one of the original features of French war finance. There was in this respect a great difference between France and Germany. In the latter, at the outbreak of war, there were heavy withdrawals from the banks; but this movement was soon checked, and from that time money constantly flowed into their coffers, which are the natural reservoirs of the public savings. There was no moratorium in respect of deposits, nor was any measure of protection applied to the savings banks, and the public confidence in these establishments re-

⁷ It should be noted that these figures cannot be considered as correct within a few billions; the system of accounting in respect of these bonds was not during this period so organized as to bring out exactly what had already been issued and what was still in course of issue.

⁸ Since 1921 Treasury bills with a currency of more than a year have been issued, as a kind of substitute for funding loans in the form of *rentes*.

mained unimpaired. The Government was therefore enabled to draw the money that it required for the conduct of the War from the banks themselves. As M. Rist has clearly shown,⁹ the system of recourse to credit adopted by the German Empire consisted in absorbing the liquid funds deposited in the banks, as fast as these accumulated, by issues of short term Treasury bills, and in funding as large a proportion of these floating loans as possible by issues of Government stock or bonds every six months. "The principal credit instrument of the Empire," says M. Rist, "was the issue of Treasury bills or drafts for terms varying from less than four weeks to a maximum of three months. These bills were first discounted by the Reichsbank at the official rate of 5 per cent. A part of them was then transferred by it to the banks, savings-banks, coöperative credit societies, and even to large industrial and commercial houses direct."¹⁰

In France, the machinery was for a considerable period disorganized by ill-considered and indiscriminate moratoria. The public, deprived by the moratorium of the liquid funds that it had deposited with the banks, adopted the habit of hoarding. It was not in the banks that the Government could hope to find, as it could in Germany, the sums it needed, ready for investment in State loans; nor was the low level of bank deposits any indication of the amount of available funds in the hands of the public. The Government was thus deprived of a convenient gauge. It was therefore driven to take the bold step of applying directly to the public—a bold step, but unavoidable. Success proved that the idea was sound, and the Minister who, if he did not perhaps himself conceive it, at least had the great merit of adopting and realizing it, deserves unstinted credit.

Issues of very short term bills "on tap" are extremely convenient for the Treasury, but they give rise to a dangerous situation. Of all forms of public debt, the floating debt is the most perilous, because it exposes the State at any moment to sudden demands for repayment. The peril is not very serious when the floating debt itself is not very great relatively to the country's wealth and to the resources of the State. But a floating debt of the magnitude of that existing today in France evidently renders the public finances very

⁹ Ch. Rist, *Les finances de guerre de l'Allemagne*, 1921, Ch. III.

¹⁰ Rist, *op. cit.*, p. 86.

insecure. No doubt, for a long time the demand showed no signs of exhaustion, and the bills were renewed as they came to maturity; whether the holders themselves renewed their bills as they matured or new applicants took the place of those who withdrew, the total of bills in circulation did not vary greatly. The floating debt may thus at times assume a permanent character which appears to be in contradiction with its nature and its very name; superficially it presents the aspect of a kind of consolidated debt. But this is a deceptive appearance, and the peril is not less real for being masked. In the present state of Europe, full of elements of disturbance and anxiety, one cannot avoid imagining some serious event which, by shaking the public confidence, would check the flow of funds into the Treasury and place the State in the position of a debtor unable to meet his liabilities. Urgent short term maturities, of the order of 50 to 60 billions of francs for the whole year, place the solvency of the State in constant danger.

Moreover, the circulation of a large mass of Treasury bills is a cause of inflation. A bill shortly about to mature may provide a means of payment; in fact it appears that the bills do, to a certain extent, serve this purpose. It is no doubt a great exaggeration to regard them, as do certain writers, as a kind of bank notes; but it may be admitted that they assume something of the monetary functions of notes and that they thus contribute to increase, to a not inconsiderable extent, a mass of currency that is already excessive. The most serious feature is that bills constitute a perpetual danger of inflation, that they are a latent source of inflation, since they are repayable at short notice and the State cannot pay them off, if presented in large quantities, except by issuing further notes.

Investment in National Defense Bonds has entered deeply into the habits of the French public. A considerable part of this public looks upon them as a permanent, not a temporary investment, and there are investors who employ a relatively large part of their capital in this way. There are even some persons who evidently invest in these bonds in preference to investing in *rentes*. And yet the debtor is the same and the yield of the bonds is lower than that of *rentes* at current stock exchange prices. The preference for the bonds may be attributed to two reasons. The first is that the capital invested in the bonds runs no danger of being locked up, except for

a very short time, and is not exposed to the risk of depreciation that threatens stock exchange securities in periods of uncertainty. Whereas those who subscribed to the war loans have seen the price of their securities fall substantially and have thus lost part of their capital—for instance the 6 per cent *rentes* issued at par in 1920, are quoted (September 1925) at about 67—the holders of the bonds have kept their capital intact, and this is worth some sacrifice in the matter of interest. Moreover the purchasers of *rentes* have an unpleasant recollection of the time when there was no free market in those stocks and when they could only be sold at the official price, which meant that they could only be sold in minute quantities. The market in *rentes* was only gradually freed during the first half of 1922. Up to then, investments in *rentes* were like a cunningly devised trap, into which it was easy enough to enter but from which it was impossible to get out; this has contributed not a little to dissuade the French public from investments of this class and to create a preference for the bonds.

Another reason for preferring investments in the bonds is that these conceal to the utmost the identity of the holder. The National Defense Bond leaves no trace of its passage. At any office of the State or at any bank, the capitalist can obtain it, have it renewed or paid off, without formalities, indiscreet questions, or signing of papers. This is extremely convenient for those who do not wish to reveal the exact amount of their property and of their income to the revenue authorities. The State did little more than legalize a *de facto* situation when it exempted the bonds from the general tax on income.

IV. *Payment for requisitions in Treasury bills.*

During the first weeks of the War, the State made use of Treasury bills to pay for goods requisitioned. To make payments in Treasury bills to people who ought to be paid in legal money, without their consent, is to raise a kind of forced loan; for the State, instead of giving its creditor something, such as money, that he can immediately exchange for any other commodity, gives him what is merely a title to obtain that money later. However, the State made only a very limited use of this method of payment.

Article 27 of the law of the 3rd July 1877 on military requisi-

tions reads as follows: "In time of war the payment of the indemnities may be made in Treasury bills carrying 5 per cent interest from the date of their delivery." In virtue of this Article, automobiles requisitioned during the first weeks of the War were paid for entirely in Treasury bills. As regards other carriages, horses, and mules, they were never, in practice, entirely paid for in Treasury bills; a memorandum of the 21st August 1914, settled in consultation between the Minister of War and the Minister of Finance, decided that those requisitioned should be paid for one-half in cash and one-half in bills. The same rule applied to services, supplies, and commodities requisitioned. Lastly, as regards ships requisitioned, the indemnities were paid, according to circumstances, either half in cash and half in bills, or three-quarters in cash and one-quarter in bills.

This period of total or partial payment in bills did not last long. The objections to the practice are manifest. At a time of economic disturbance caused by a great war, what people need is cash, not Treasury paper maturing some months later. Moreover the delivery of Treasury bills to creditors who do not ask for them is injurious to the credit of the State; credit is nothing but confidence, and any form of coercion impairs confidence.

The French State accordingly soon abandoned the right that it had under the law of 1877 of paying in Treasury bills for goods and services requisitioned. Decrees of the 11th November, 6th and 16th December 1914, and 10th January 1915, laid it down that in future requisitions should be paid for entirely in money.¹¹

V. *National Defense Obligations.*

National Defense Obligations and National Defense Bonds belong to different categories of the public debt. The obligations form part of what are called the "Treasury commitments," and not of the floating debt; they are for longer terms than the bonds.

The issue of Treasury obligations has often been resorted to in French financial history. There have been thirty-year obligations, of which the Second Empire issued a considerable quantity; fifteen-year obligations, issued between 1873 and 1875 by the National

¹¹ A detailed account of the measures adopted will be found in the *Revue de science et de législation financières*, 1915, pp. 555 *et s.*, and pp. 629 *et s.*

Assembly; and six-year obligations. On the eve of the War, some of the latter alone remained in circulation, to a total, on the 31st July 1914, of 342 million francs.

Treasury obligations are a form of borrowing intermediate between the *rente*, which if it is repayable is repayable only at a somewhat distant date, and the Treasury bills, which—except for the issues of two-year or longer term bills made since 1921—have a currency of one year at most. They serve, either to meet an expenditure which is looked upon as temporary and which is to be recovered from special receipts, or to tide over, without an increase of the floating debt, a period of deficiency, pending a moment favorable for an issue of *rentes*.

The National Defense Obligations were created for the latter purpose. They were instituted by the law of the 10th February 1915, whose single article reads as follows: "The Minister of Finance is authorized to issue, to the best advantage of the State, obligations whose maturity shall not be later than 1925. These obligations shall be free of taxes." The issue of these obligations was regulated, in virtue of the above law, by the decree and *arrêté* of the 13th February 1915; the following are the provisions of these two enactments:

(1) The obligations whose issue is authorized by the law of the 10th February 1915 are entitled National Defense Obligations. They carry interest at 5 per cent *per annum*, payable by equal moieties on the 16th February and 16th August of each year and in advance, which raises the interest on the obligations, as on the bonds, a little above the nominal rate. The report which introduces the decree of the 13th February states that the payment of interest in advance was one of the causes of the success of the National Defense Bonds and that it is advisable to maintain the principle in connection with the obligations, applying it to the six-monthly payment of interest, which is what the public is used to in obligations of a certain length of currency.

(2) The price of issue is 96½, subject to the deduction of the interest on the portion of the current half year unexpired at the date of subscription, this being a consequence of the rule that interest is payable in advance.

(3) The obligations are payable either to bearer, or to order with

right of transfer by endorsement. They are exempt from taxes for the whole period of their currency. They are repayable at par on the 16th February 1925, the Treasury having the option of repaying them at any time from the 16th February 1920.

(4) They are exchangeable for amounts of any State loans that may be issued before the 1st January 1918, at the price of issue increased by the accrued portion of the premium on repayment, but diminished by the interest on the unexpired portion of the current half-year, since the interest is paid in advance.

In accepting the obligations in payment of subscriptions to any loans that might be issued before the 1st January 1918, the Government was fixing a date before which almost everyone imagined that the War would have ended. The period had subsequently to be extended, and the obligations were accepted in payment of subscriptions to loans issued after 1918. There is a difference between the bonds and the obligations for the purpose of these subscriptions. The bonds have a preferential right, which is not accorded to the obligations; but as the amount of the loans, except that of the 4 per cent loan of 1917, was not fixed in advance, the preferential right lost all practical importance.¹²

For the issue of the obligations, as for that of the bonds, recourse was had to the public direct. The issue was made through the accountants of the Treasury and of the financial administrations, through the post offices, and through the Bank of France.

The law of the 16th February 1917 extended to twenty years the maximum currency of the obligations that the Minister of Finance is empowered to issue in virtue of the law of the 10th February 1915.

Besides the ten and twenty-year obligations provided for by the law of 1915, modified by that of 1917, two other categories of obligations have been created: five-year obligations (decree of the 9th February 1917, adopted in virtue of the law of 1915), and six-year obligations (decree of the 14th May 1919, adopted in virtue of the

¹² On the occasion of the loan of 1917 of limited amount it was declared that subscriptions in the form of obligations, as well as subscriptions in the form of bonds, would be accepted without limit; it follows that the fact that holders of obligations had no preferential rights was without practical importance as regards any of the issues of *rentes* of the period with which we are concerned.

laws of 1915 and 1917). Both series present this special feature that the holder can demand repayment at par before maturity, but that if he waits for maturity he benefits by a premium on reimbursement. The State sought by this arrangement to obtain subscriptions for a period longer than the currency of the National Defense Bonds, while not obliging the subscriber to bind himself up to the agreed maturity.

The following were the conditions adopted as regards the five-year obligations. They are issued at par and carry interest at 5 per cent payable half-yearly in advance. The holder has the right to be repaid at par at the end of the first year, and subsequently at any date when a coupon falls due; if he waits for the five-year maturity, he is repaid at 102 fr. 50, that is, with a premium of 2 fr. 50 per 100 francs.

The six-year obligations are issued at par, with interest at 6 per cent payable half-yearly in advance. The holder can claim repayment at par at the end of the third half-year. At the expiration of the six years he is repaid at 103 francs per 100 francs. If he demands repayment at any half-yearly date from the fourth, the repayment is at the rates of 100.60 per cent, 101.20 per cent, 101.80 per cent, and 102.40 per cent according as 2, 3, 4, or 5 full years have elapsed since the date of the issue of the obligations.

The National Defense Obligations were eagerly subscribed, and for large amounts, in the first year of their institution. At that moment much capital intended by the owner for permanent investment was put into the obligations pending a favorable opportunity for such investment. Moreover a part of the 3½ per cent repayable *rentes* which had been issued in July 1914 was converted into obligations under the conditions that we shall have occasion presently to explain. The amount of these was therefore from the first considerable. At the time of the first issue of *rentes*, on the 20th November 1915, the nominal amount of the National Defense Obligations was 3960 millions of francs, of which 3317 millions were surrendered as subscriptions to the loan. But since then the public

has shown a distinct preference for the bonds as compared with the obligations. At the end of 1919 the amount of the obligations was :

	<i>Francs</i>
5-year obligations	166,200,000
6-year obligations	202,152,000
10-year obligations	545,619,000
	<hr/>
Total	913,971,000

CHAPTER V

INTERNAL FUNDING LOANS

DURING the War there were four issues of funding loans, that is to say of *rentes*, in 1915, 1916, 1917, and 1918. Before the issue of the first of these loans, measures had to be taken to facilitate the payment of the installments of subscriptions to the loan issued in July 1914 and we shall have to begin by briefly setting out these measures. After the War, during 1920, two further issues of *rentes* were made; since then, as it has been necessary to continue borrowing for the restoration of the devastated areas, other forms have been adopted, and Treasury bills have been issued for longer terms than is usual. But this lies outside the scope of the present work.

I. *The 3½ per cent redeemable rentes of July 1914. Steps taken for the liquidation of this loan.*

On the 7th July 1914 public subscriptions had been invited to an issue of 3½ per cent *rentes* redeemable in 25 years, of a net effective amount of 805 million francs; the price of issue had been fixed at 91.¹ This was the first slice of a larger loan which had already been considered necessary in 1913 and which was to amount to about 1800 million francs.

The loan met with only apparent success. There had been delay in the issue; it had been proposed in 1913 and had given rise to much discussion, as a result of which a certain degree of financial confusion had come to light; it had been issued moreover at a moment when even the public at large was beginning to be perturbed by the perils of the foreign situation and when the violent incidents of internal politics were causing profound anxiety. No doubt the issue had been covered nearly forty times over, and the press, as the ritual requires, had taken up its trumpet to celebrate the fecundity of French thrift. But the subscriptions were not, for the greater part, those of capitalists looking for a permanent investment; they were the subscriptions of Stock Exchange speculators hoping to resell at a premium, or of bankers who had been subjected to strong pressure by the Minister of Finance in order to

¹ Law of 20th June 1914, decree of 24th June 1914, ministerial *arrêté* of the 25th June 1914.

secure that the operation should not meet with failure or partial failure. The loan, in fact, was not "well held."

The installments of subscriptions were spread, according to the terms of the ministerial *arrêté* of the 25th June 1914, over a period from the day of subscription to the 16th November 1914, the two heaviest installments being payable on the 16th September and 16th November. On the 1st August, 345 million francs had been paid; 460 millions remained due to the Treasury.

One of M. Ribot's first cares, when he became Minister of Finance, was to clear the ground by getting rid of this 3½ per cent loan. The payment of the installments had suddenly become, in consequence of the War, a matter of great difficulty, and the terms were not, in his opinion, such as could serve as a type for the future war loans. In the explanatory statement prefixed to the bill granting provisional credits for the first half of 1915, M. Ribot explained the grounds for the steps taken by him in connection with the loan of 1914:

" . . . The loan had been, in great part, subscribed by banks and Stock Exchange speculators. The latter knowing that they would receive only a part of what they applied for, had increased their applications to the extent required to secure the amount which they wished to have allotted to them. When war was declared, the loan was weighing, in a great measure, on banks and on subscribers by installments, who have found great difficulty in discharging their liability. . . . It was to be feared that many subscribers would make no effort to pay the full purchase price of a security whose value was depreciated by the prospect of future loans, which might be issued on more advantageous terms. We came to the conclusion that it was equitable and at the same time to the interest of the Treasury to grant to such subscribers as might pay the price of their scrip in full, the right of exchanging that scrip, on the occasion of future loans, for the new stock at the issue price of the 3½ per cent loan, that is to say at 91, so that they would incur no loss. This was not a mere act of benevolence to the subscribers; it was also a measure of sound policy from the standpoint of the State, which, with the prospect of heavy borrowing before it, has every interest in retaining clients who trust it and who will hereafter bring it their savings the more readily that they have met with equitable treatment at its hands."

The steps taken by the Minister were of two kinds; the first were designed to facilitate and encourage the payment of the subscriptions to the loan; the second to prepare for the absorption of this stock in the issue of future war loans.

To facilitate the payment of subscriptions, the dates of the third and fourth installments were postponed by ministerial *arrêté* and a discount granted where these were paid at the original dates. The Government moreover induced the Bank of France to make advances to the holders of scrip to enable them to complete their payments.

To prepare for the absorption of this stock in future war loans, the decree of the 11th September 1914 provided that, subject to the condition that the installments had been paid at the dates laid down by ministerial *arrêtés*, the stock acquired should be accepted in payment of subscriptions to any *rentes* or short term bills or bonds that might be issued before the 1st January 1917, at the price of issue of the $3\frac{1}{2}$ per cent stock, namely 91. As, at the end of August 1914, the $3\frac{1}{2}$ per cent *rente* issued at 91 was quoted at only 82, the holder who paid the required installments at the proper time and subsequently got his stock converted into war loans, avoided the loss consequent on this depreciation.

The result of these various measures was that by the end of January 1915, nearly the whole of the installments of subscriptions to the $3\frac{1}{2}$ per cent *rente* had been paid, and that only 25 to 26 millions of francs remained due to the Treasury. This constituted a not unimportant source of funds during the first months of the War.²

Assuredly this policy entailed sacrifices on the Treasury. The State undertook to accept in payment of subscriptions to future loans, at 91, stocks which were already worth less than this and which the prospect of loans at a higher rate of interest was bound still further to depreciate; by accepting them in payment, it exchanged them for stock involving a heavier charge (indeed, as we shall see, all the loans subsequently issued were issued at an effective rate of interest of more than $5\frac{1}{2}$ per cent). It has been thought in some quarters that the State consented to too great a sacrifice and made a bad bargain. But the Minister acted wisely. He knew

² The details of the measures adopted and the arguments as to their appropriateness are carefully set forth by our colleague M. Jèze in the *Revue de science et de législation financières*, 1915, pp. 677 *et s.*, and pp. 687 *et s.*

that he would have to draw on the country's savings repeatedly and for enormous sums; he knew from experience that he would obtain nothing except from the goodwill and confidence of the public and that he must secure the favor of those whose support he needed. Had this 3½ per cent loan of July 1914, belated in its issue and unfortunate in its terms, been allowed to drag about the market, with its installments not fully paid and practically irrecoverable, it might by its contagious influence have impaired the whole of the public credit. The only thing to do was to eliminate it, and praise is due to the Minister who was wise enough to distinguish and preserve what was essential, at the cost of what was subsidiary, and so open the way for the war loans.

II. *Characteristics common to the loans of the period 1915-1918.*

Issues of perpetual rentes.

The four loans of the period 1914-1918 have certain characteristics in common. They were all loans in the form of perpetual *rentes*, issued below par, and exempt from the common law rights of attachment and taxation. Each of these characteristics deserves notice. We will first deal with the character of perpetuity.

The perpetual *rente* is so-called because the holder foregoes the right of ever claiming the reimbursement of the capital;³ the borrower always has the right of repaying the capital when he pleases, perpetual *rente* being, in French legislation, essentially redeemable (Art. 1911 of the Civil Code).

The French State has always borrowed largely on perpetual *rentes*. If the French public debt on the eve of the War (31st July 1914) is examined, it will be seen that out of the total capital of 32,579 million francs (excluding the floating debt), perpetual *rente* represented 21,922 millions, or 67 per cent. The preference given during the period 1915-1918 to perpetual *rente* was thus no innovation, for the previous practice constituted a firm precedent.

The relative advantages and disadvantages of borrowing on perpetual *rente* as compared with amortizable loans have been a classi-

³ Articles 1909 and 1910 of the Civil Code. Art. 1909: "Interest may be stipulated in respect of a capital that the lender undertakes not to demand back. In that case the loan is known as the constitution of *rente*." Art. 1910: "This *rente* may be constituted in either of two ways, in perpetuity or for life."

cal subject of discussion in financial science. The State that borrows on perpetual *rentes* avoids an immediate charge and a future danger. The charge consists in finding the revenue wherewith to begin, at an early date, the amortization of the loan. The danger lies in the fact that serious political events, political crisis, war, etc., may occur in the contractual and therefore obligatory period of amortization, which may suddenly diminish the State's resources and place it in a difficult position, obliged as it is to meet fixed maturities. Perpetual *rentes* do not do away with the political obligation to amortize the debt, an obligation which, if not observed, renders sound finance impossible, but it allows the State to postpone the amortization; perpetual *rentes* do not make amortization a legal obligation; they allow the State to choose its time, to anticipate events, to select the favorable moment for repayment, to accelerate or retard the operation of the sinking fund according to circumstances.

Another advantage that one may hope to derive from borrowing on perpetual *rentes* is that the debt in the long run, by efflux of time and as a result of economic progress, may diminish, and diminish automatically without the need for effort or sacrifice. The fall in the rate of interest makes conversions possible, by which the annual service of the debt is lightened. In the course of centuries the value of money diminishes, and a public debt that continues to be expressed by the same term in money represents a diminishing charge. The gradual enrichment of the nation and the development of its taxable capacity operate in the same direction. Why then undertake the heavy burden of a sinking fund, since the debt gradually melts away, like snow in the sun?

There is no doubt some truth in all this. But it will be observed to begin with that an argument which may be weighty in the abstract is not always applicable to the particular case. Loans contracted in a period of depreciated currency become heavier, not lighter, if the value of the currency subsequently appreciates. If, for instance, the franc were to rise, the French Loans of 1920 would be a heavy charge on the budget. The claim that a debt automatically diminishes is not always well founded.

Taking the matter in its widest aspect, there is a kind of self-contradiction in borrowing on perpetual *rentes*. The financial function of a loan is to provide a State with funds wherewith to meet exceptional expenditure, expenditure in excess of what can be drawn

from normal revenue at the moment when it is required. If this expenditure were exceptional to the point that it must only occur once in the lifetime of the nation, then it would be logical to borrow on perpetual stock. But that is not what happens. Take the case of a loan to meet some great program of public works. One may be sure that each generation will have its own program of public works, and sound financial policy requires that the loan shall be amortized during the period between the execution of one program and the execution of the next. The economic value of the works carried out diminishes with time, and there is a contradiction in assuming a perpetual charge to create something which is not of perpetual value. Or take the case of war loans. War is not dead; it will continue to prowl about the world. The State that allows the old loans of past wars to drag on indefinitely in its budgets disarms itself financially.

Borrowing on perpetual stock is therefore not a good financial arrangement unless it is accompanied by a system of extra-contractual amortization that works regularly and effectively. Now, in the absence of a contractual obligation, a good system of amortization will work regularly and effectively only if the men charged with the conduct of the public finances and the assemblies that vote the budget are animated by a strong sense of political continuity and by considerable political courage. This condition is not, far from it, always realized. The danger underlying the loan on perpetual *rentes* is that the State, being under no contractual obligation to redeem, will not make the necessary effort, or will not make it with due regularity and continuity. If this is so, if the old debts are not got out of the way, while new debts are added as a consequence of the various incidents of national life, the public finances steadily deteriorate, and there comes a time when the interest on the debt—which represents only needs and services of the past—absorbs the best part of the resources required to enable the State to live in the present and to prepare for the future.

III. *Characteristics common to the loans of the period 1915-1918* (continued). *Issues below par.*

The four loans of 1915, 1916, 1917, and 1918 were issued at a price much below the nominal value of the stock. The loan of 1915,

bearing interest nominally at 5 per cent, was issued at 88; the loan of 1916, at the same nominal rate of interest, was issued at $88\frac{3}{4}$ per cent; the loan of 1917, bearing nominal interest at 4 per cent, was issued at 68.60; that of 1918, also a 4 per cent loan, was issued at 70.80. Thus, on the occasion of each of these four loans, the French State received from the subscribers a sum considerably less than that for which it made itself liable to them.

The issue of loans below par has long been a favorite practice in France. The two great loans contracted after the war of 1870, those of 1871 and 1872, were issued much below par; they were nominally 5 per cent loans, the first issued at $82\frac{1}{2}$ and the second at $84\frac{1}{2}$ per cent. If we take all the loans on perpetual *rentes*, from 1816 to 1914, we find that there were 40 issues, of which two were made at par or very near it (in 1832 and 1901), one above par (the loan of 1828, allotted to the Rothschild bank at 102), and all the others below par, the lowest prices of issue being 57.26 and 57.51 (loans of 1816 and 1817).

As regards redeemable 3 per cent *rentes*, these have been issued at various prices, all below par; for stock of a nominal value of 500 francs, the lowest issue price was 383 francs and the highest 476. Finally the redeemable $3\frac{1}{2}$ per cent *rente* of July 1914 was issued at 91. The practice of issues below par is thus well established in France and what was done in respect of the loans of the period 1915-1918 was in accordance with precedent.

Like the question of perpetual *rentes*, the question of the wisdom or otherwise of making issues much below par is a financial problem of long standing.⁴ The issue of stock below par raises the real rate of interest above the nominal rate; 3 per cent stock issued at 75 yields the subscriber a real interest of 4 per cent. The real rate of interest on the four French war loans, two of them 5 per cent *rentes* and two 4 per cent *rentes*, was substantially above $5\frac{1}{2}$ per cent. The real rate of interest, one would suppose, is the only one that matters to the debtor State. If the State thinks that it can obtain the money it needs only at 6 per cent, the simplest course is to issue a 6 per cent loan at par; why issue a 5 per cent loan at

⁴ On this question, reference may be made to the articles published during recent years by our colleague M. Jèze in the *Revue de science et de législation financières*: 1917, pp. 628 *et s.*; 1918, pp. 608 *et s.*; 1922, pp. 504 *et s.*

about 83-84? In taking the latter course, the State may be actuated by various motives.

It may be that the State shrinks from inserting in the documents relative to the loan the real rate of interest at which circumstances compel it to borrow. Times are bad and money is dear; but the State hopes that these conditions will not long prevail; that its credit will improve and that the rate of interest on its loans will fall. It does not wish to see in the Stock Exchange quotation a lasting testimony to a time when it borrowed at 6 per cent; it therefore borrows at 5 per cent below par, or at 4 per cent even more below par. Thus the financial prestige of the nation is safeguarded. Men like to be deceived or to deceive themselves, when facts are unpalatable.

There is a more valid reason for issues below par. A loan issued below par, for instance a 5 per cent loan issued at 85, offers the subscriber the prospect of a possible rise and therefore of a capital increase. If the loan is redeemable, this is more than a prospect, it is in a given time a certainty: a 5 per cent loan issued at 85 and redeemable in fifty years gives the subscriber the assurance of an increase in capital of 15 per cent. If the loan is perpetual, the stock has at least a fine range of rising prices open to it; the subscriber may hope to sell again at 90, 95, or 100 the stock that he acquired at 85. The range of rise open to a stock issued at par is less considerable, for if the quotation goes above par, the possibility of conversion arises. An investor does not readily purchase at 105 or 110 a stock which there is a risk that the Government may offer to redeem at 100.

The subscriber accordingly finds an advantage in issues below par. The Stock Exchange also looks on them with favor, because operations for the rise or the fall are profitable. There is money to be earned when stocks rise and also when they fall, and stocks issued well below par lend themselves better to such fluctuations than stocks issued at par. But what advantage can the borrowing State find in issuing its stocks below par, at a nominal rate of interest that is not the true rate?

From the standpoint of the State, what strikes one at first is the onerous character of issues below par. The State which borrows by means of loans below par recognizes its liability for a larger sum than it receives. The State received from each subscriber to the 4

per cent loan of 1917, 68 fr. 60 for each 100 francs of debt that it incurred, and from each subscriber to the 4 per cent loan of 1918, 70 fr. 80. If the loan is redeemable in a given period, the loss to the State is mathematically certain within that period; if the loan is perpetual, the loss may or may not arise, since the State is at no time obliged to redeem; but it must redeem sooner or later, unless it adopts the worst possible financial policy; and when that time comes, it repays more than it received. The State is therefore like the son who, being short of money and knowing that his father will give him none, places himself in the usurer's hands and signs a bill for 10,000 francs when he has received only a half or a quarter of that sum; Molière has made the character well known.

The loan below par is moreover onerous in that it postpones the date of possible conversion. It is only when the price of the stock has risen, with some degree of permanence, above par, that a reduction of interest by an offer of conversion can be contemplated. A 6 per cent stock issued at par, if the State's finances are well administered and its credit improves, may fairly soon reach the point where conversion begins to be possible, and the charge for interest is then reduced. A 5 per cent stock issued at a price calculated to yield 6 per cent evidently takes much longer to reach that point.

These considerations are calculated to make us condemn issues below par. And yet such issues may prove advantageous to the State. Where a loan is issued below par, the subscriber, for the very reason that he has the chance or the certainty of realizing a capital appreciation, is prepared to accept a real rate of interest lower than if the loan were issued at par. The fact is unquestionable. On the Stock Exchange the unit of interest costs more—given stocks of the same State and offering the same degree of security—where the stock is much below par, and less where the stock is near par. For instance, at the end of 1923, the French 3 per cent *rente* was quoted about 53, which puts the price of 1 per cent of interest at a little more than 17; whereas the 6 per cent *rente* was quoted about 81, which puts the price of 1 per cent of interest at 13½. In the former case the holder has bought, besides the right to a fixed revenue, the chance of a much larger capital appreciation than in the latter case, and has for that reason consented to pay more for each unit of interest.

Issues below par are not therefore necessarily bad business for the

State. It secures by this means an alleviation of its present burden; on the other hand it throws a heavier charge on the future, whether by reason of the fact that conversion will be retarded or because the sum to be repaid will be larger than the sum received. The debit and credit sides of this account are not easy to draw up; it is only when the operation is concluded, and even then with much uncertainty, that the balance can be struck. Wisdom in general requires that one should avoid charging the future for the benefit of the present, for political assemblies are already only too much inclined to this line of policy. But at moments when the present is already terribly over-burdened, it is not unreasonable and may even be necessary to relieve it at the expense of the future.

IV. *Characteristics common to the loans of the period 1915-1918 (continued). Privileges and immunities conferred on the stocks issued.*

The law of the 16th November 1915, which authorized the issue of the first war loans, provides as follows (Art. 4): “. . . These *rentes* enjoy the privileges and immunities attaching to the perpetual 3 per cent *rentes*. They are exempt from taxes.” The laws of 1916, 1917, and 1918, authorizing the issue of the second, third, and fourth loans, conferred on these stocks the same privileges, immunities, and exemption as the first loan had enjoyed.

The privileges, immunities, and exemptions conferred on French *rentes* have their origin in the laws of the Revolutionary epoch. In virtue of the laws of the 8th *Nivôse* of the year VI and of the 22nd *Floréal* of the year VII, State *rentes* cannot be attached. There is, however, some doubt as to the exact scope of this immunity, and the decisions of the Courts do not accord with those of the Council of State, nor with the practice of the financial administration. State *rentes* are exempt from the taxes on securities. The principle of this immunity is to be found in the law of the 9th *Vendémiaire* of the year VI, which directs that two-thirds of the inscribed *rente* shall be repaid in *assignats* and one-third consolidated. By article 98 of this law “the third of the public debt remaining inscribed is declared exempt from taxes present and future.” The meaning of this article is open to discussion, but the opinion that has in fact prevailed is that it implies an undertaking by the State to levy no tax on *rentes*. Moreover the immunity has on various occasions been

confirmed by laws relating to the issue or conversion of *rentes*. It is only from taxes peculiar to securities that *rentes* are exempt; but the holder is required to reckon the interest on them in the total of his income, so that they are subject to general income tax.

There has been abundance of talk and debate on the exemption of *rentes* from taxation, and the discussion that has arisen during the twentieth century about the income tax has added new material to these old disputes. Undoubtedly, from the point of view of principle, the immunity is indefensible; it is a flagrant violation of the equality of taxation. But equality of taxation is an idea which, in France and probably elsewhere, has gone out of fashion; only a few professors pay any serious attention to it. In political assemblies it is political interest rather than abstract principles that decide the distribution of taxation. From the standpoint of political expediency there are important considerations in favor of the fiscal immunity of *rentes*. The holders are extremely attached to this immunity; it appears to them, as a result of a long tradition, an indisputable right, whatever doubts may arise as to the meaning of the texts on which it originally rests, and a right that has acquired a very great and increasing practical importance in view of the magnitude of the taxes imposed on other securities. A Minister of Finance with a loan to place on the market will fear a failure if he attempts to go counter to the acquired habits and the preferences of the investor. The principle of equality of taxation is a good thing; but the complete success of the loan is a better. Moreover, financiers point out that the immunity from taxation tends to raise the price of *rentes* on the Stock Exchange and that this makes conversions easier; and further, that if it were not for the immunity, a higher rate of interest would have to be offered, so that the State would lose in interest payable what it would gain in taxes received, and perhaps even more. All which is no doubt very true.

The scheme of general income tax, as the Chamber had passed it in 1909, provided, in the schedule relating to securities, for the taxation of *rentes*. The debentures issued by the State railways are subject to all the taxes imposed on debentures issued by other French companies (law of the 13th July 1911, Art. 44). The 3½ per cent redeemable *rentes*, issued in July 1914, did not enjoy complete immunity from taxation; of the three taxes on securities, stamp duty, succession duty, and income tax, the 3½ per cent redeemable

rentes attracted only the last, a compromise significant of the tendency then prevailing in financial circles to subject government stocks to the common law in matters of taxation.⁵ This tendency would no doubt have won the day had the War not supervened.

The War relegated the controversy as to immunity from taxation to the region of pure theory. Ministers responsible for the administration of French finance were faced with the necessity of drawing on the public savings for enormous sums, and of doing so when the political and military conditions were not always propitious; they therefore found themselves, in practice, obliged to array every chance of success on their side before risking the issue of a loan. When the National Defense Obligations were created by the law of the 10th February 1915, they were declared by that enactment exempt from taxes. The same thing occurred when the first issue of *rentes* was made in 1915; the explanatory statement attached to the bill that became the law of the 16th November 1915 contains only the briefest justification of the immunity granted to the new *rentes* about to be issued, so obvious did the necessity for it appear: "The privileges and immunities attaching to the 3 per cent *rentes*," says the explanatory statement, "could not but be extended to the new *rentes*. We have thought it necessary to amplify this stereotyped formula by saying that the *rente* now created would be exempt from taxes. This exemption is justified, apart from other considerations, by the situation that results from the state of war." The necessity pleaded by the Minister has scarcely been contested; even in the eyes of partisans of the taxation of *rentes*, circumstances overrode principles.

The system of direct taxation now prevailing in France confirms the immunity of *rentes* from taxation. They do not figure in the income tax schedule relative to securities; the only *rente* whose coupon is subject to income tax on securities is the 3½ per cent redeemable *rente* of 1914, which has almost entirely disappeared from the list of French government stocks, as a result of the measures taken to facilitate its conversion into the new war loans.⁶

⁵ Stamp duty being payable by the issuing house, it would, in respect of *rentes*, have been merely a fictitious tax, which the State would have paid to itself. But there is no reason for not subjecting *rentes* to succession duty, if the principle of its immunity from taxation is abandoned.

⁶ It is remarkable that England, attached as she is to the principle of the

V. *The 1915 issue of 5 per cent rentes. Terms and results of the issue.*

The first of the great war loans was not issued until November 1915, the sixteenth month of the War; until then the Treasury drew its funds from advances by the Bank of France and from issues of short term bills and obligations. The delay which attended this first issue of *rentes* has been much criticized. In England the first war loan was issued in November 1914 and the second in July 1915. In Germany a first loan was issued in September 1914, and from that time the German loans followed one another, with striking regularity, every six months.

The delay in the issue of the French loans is explained, if not justified, by various facts. From the military point of view, the situation during the first weeks was so unfavorable that no call could be made on public savings, and even after the victory of the Marne the position was not much brighter. It appears that the authorities hoped at that time that the French territory would shortly be freed, and wished to wait until this was completely done before issuing a loan; then little by little they had to resign themselves to issuing it while the enemy was still on French soil and somewhat near the capital. It is moreover certain that the financial administration had not considered beforehand how the machinery of public credit would work in war-time, and that it had no procedure ready for that event. And finally the financial market was disorganized by the moratorium on maturities and bank deposits and by the postponement, decreed on the 31st July 1914, of the stock exchange settlement;⁷ it was

taxation of government stocks, offered subscribers, on the occasion of the loan of 1917, the option between a 4 per cent stock free of income tax and a 5 per cent stock subject to income tax.

⁷ The decrees of the 31st July, and 2nd and 5th August 1914 postponed the maturities of commercial bills in France and Algeria. This necessarily entailed the moratorium on bank deposits which was decreed on the 9th August 1914. On the Paris Stock Exchange the carry-over at the end of July fell short of 500 million francs in the house, and amounted to 150 or 160 millions in the *coulisse*. These figures were in no way abnormal, but the principal operators were not in a position to leave their funds on the Stock Exchange and fresh capital was unobtainable. The stock brokers decided that the settlement of the 31st July should not take place. A decree of the 27th September 1914 suspended all demands for payment and all legal proceedings relative to operations for the account entered into prior to the 4th August 1914. The Stock Exchange was not reopened until the 7th December 1914.

encumbered moreover by the loan issued in July 1914, the subscriptions to which, as already explained, had not been fully paid.

The enactments relative to the loan of 1915 were: the law of the 16th November 1915, three decrees and one *arrêté* of the same date, and a decree of the 22nd November 1915. This is the usual French procedure: the law authorizes the loan, determines its essential features and certain other conditions; as regards the rest, the Government has a wide discretion which it exercises through decrees and *arrêtés*.

The law of the 16th November 1915 adopted a 5 per cent perpetual *rente* as the type of loan to be issued, and the Minister of Finance had justified this choice, in a speech made in the Chamber on the 12th November, by adducing the old national tradition: "We offer to the public," he said, "this old type of 5 per cent *rente* that was known to our ancestors and has been so popular in our country. . . . The 5 per cent is the old French stock that was to be found everywhere, in every house, I had almost said in every cottage, that our fathers knew and loved as something belonging to France, a memory of the days that followed her long wars. . . . I can say it with confidence, the new 5 per cent will soon be as popular as that of the Restoration." These were oratorical arguments which, put forward with a skilful show of feeling, might influence an assembly devoid of much expert knowledge. In reality, if the Minister chose the 5 per cent type, it was because he thought a high rate of interest necessary to attract the funds required by the State.

The real rate of interest moreover was much above the nominal rate. The 5 per cent loan of 1915 was issued at 88, which gives an effective rate of interest of 5.68 per cent. Further, the subscriber who paid the whole of his installments at once, was entitled to claim a reduction in the price of 15 centimes per franc of *rente*, *i.e.*, per franc of nominal interest, which put the real price paid by him for 100 francs of the stock at 87 frs. 25, and the effective rate of interest at 5.73 per cent.

This perpetual 5 per cent *rente* issued at 88 cannot be redeemed before the 1st January 1931. The holder is therefore guaranteed against a conversion before that date. This might appear a very and then only for cash transactions. It was not until September 1915 that steps were taken to carry through the settlement which had remained in suspense (decree of the 14th September 1915).

valuable advantage in 1915, when a rate of interest above $5\frac{1}{2}$ per cent was something new and exceptional; today the habit of high rates of interest is well established, money will probably remain dear for a considerable period, and the advantage of a stock not convertible before 1931 has appreciably diminished.

Two provisions of the law of the 16th November 1915 were designed to enlarge the circle of possible subscribers: one related to savings-bank depositors; the other to holders of the 3 per cent *rentes*.

Since the outbreak of war, withdrawals from savings-bank deposits had been limited to 50 francs a fortnight from each account (decree of 30th July 1914); this was done in virtue of the safeguarding clause introduced by the law of the 20th July 1895. The law of the 16th November 1915 cancelled this limit of 50 francs per fortnight during the period of issue of the loan, on condition that the withdrawal was made with a view to subscribing; a decree of the 16th November 1915, by which this provision was put into force, authorized this unlimited withdrawal from savings-bank deposits only up to one-half the amount of each subscription to the loan. Thus a subscriber for 1200 francs of the stock might draw on his savings-bank deposit for the sum necessary to purchase 600 francs of the stock. The advantage to the State consisted merely in attracting subscriptions to the loan of which one-half was payable in cash, bills, or obligations; for, as regards the half paid out of savings-bank deposits, this entailed a loss to the State: savings-bank funds are invested for the greater part in *rentes*, which at that time were 3 per cent *rentes*, so that the State was substituting a 5 per cent stock for a 3 per cent stock.

The other provision, conceived in the same spirit, regarded the holders of 3 per cent *rentes*. By the terms of Article 5 of the law of the 16th November 1915, subscriptions might be paid, but only to the extent of one-third, by the surrender of 3 per cent *rentes*, which would be cancelled to the appropriate amount. The device is similar to that described above: so far as the third part paid for in 3 per cent *rentes* is concerned, the State loses; its only profit can lie in obtaining subscriptions that otherwise would not have been forthcoming.⁸

⁸ The rate at which 3 per cent *rentes* were accepted in payment of subscriptions was fixed at 22 francs per franc of interest, so that 100 francs

The public subscription was opened on the 25th November. The amount of the issue was not limited, which was contrary to peace-time practice; and this absence of limit is a feature that recurs in all the French war loans, save that of 1917. In peace-time, and even in a war such as those of the past, the sum required is known, and that is the sum that the Government borrows; in the present war, expenditure exceeded all possible estimates and was increasing monthly, and the State needed all the funds that the market could supply.

The period during which the lists were open also went far beyond what had been customary when French state loans were issued in peace-time. The Ministerial *arrêté* of the 16th November laid down that the lists must be closed not later than the 15th December, and the subscription did in fact last until that date.

The loan of 1915, supported by a vigorous campaign of publicity and by genuine national enthusiasm, yielded a total of 13,307,811,576 francs. But not all this sum was what is called "new money." Besides National Defense Bonds and Obligations, 3½ per cent redeemable *rentes* (see above) and 3 per cent *rentes* were accepted, under the conditions above described, in payment of subscriptions. The following is the analysis, in cash and securities, of the total produced by the loan of 1915.

	<i>Francs</i>
Cash ⁹	6,284,730,746
National Defense Bonds	2,244,384,799
National Defense Obligations	3,316,883,578
3 per cent <i>Rentes</i>	1,439,463,057
3½ per cent <i>Rentes</i>	22,349,896
	<hr/> 13,307,811,576

There is no practical interest in distinguishing payments in National Defense Bonds from payments in cash. The bonds surrendered as subscriptions for stock may be considered as cash which had been paid in advance. Indeed the line of demarcation between the two nominal of the stock, yielding 3 francs, was accepted at 66 francs; this was about the current Stock Exchange price.

⁹ Cash includes coin, notes of the Bank of France and of the Bank of Algeria, and transfer orders or cheques.

kinds of payment is in a measure artificial: the banks, a substantial part of whose available funds was invested in National Defense Bonds, might obtain repayment in cash of those bonds whose maturity occurred during the period of subscription, and pay the cash into the loan; if, instead of this, they surrendered the bonds, where was the difference? The capitalists who subscribed to the loan would for the most part, if the loan had not been issued, have invested their spare funds in the bonds. The distinction between the payments in "new money" and the payments in National Defense Bonds is not so important as the public generally suppose. Subscriptions to short term bills form the substance of future loans, and the essential function of the latter is to consolidate this still fluid substance. This is the true conception of a war loan; and it was brought out in certain belligerent countries, notably in Germany, more clearly than in France. The new element that the loan brings into play is the full chorus of publicity, the resounding call which the mass of the public hears and which may awaken the sleeper or decide the irresolute investor.

The useful portion of the loan of 1915 was the sum furnished by the three kinds of payments, in cash, in National Defense Bonds, and in National Defense Obligations, that is to say, a total of 11,845,999,123 francs, which constitutes 89 per cent of the capital of the loan. The remainder, 1,461,812,453 francs, is represented by stock of the 3 per cent and $3\frac{1}{2}$ per cent *rentes* surrendered: this was the onerous portion of the loan, whereby a debt at a lower rate of interest was transformed into a debt at a higher rate of interest.

Out of the proceeds of the loan of 1915, the State was able to repay 2400 million francs to the Bank of France.

VI. *The 1916 issue of 5 per cent rentes. Terms and results of the issue.*

The second war loan was issued in October 1916. The enactments relating to it were: the law of the 15th September 1916, three decrees and an *arrêté* of the 16th September 1916.

This loan was in nearly all points similar to the preceding: it was a 5 per cent perpetual *rente*, of unlimited amount, the State undertaking not to redeem before the 1st January 1931.

Two provisions that applied to the loan of 1915 were not adopted

in regard to that of 1916: the provision relative to savings-bank deposits, and that relative to the payment of subscriptions by surrender of 3 per cent *rentes*.

As regards savings-bank deposits, it was useless to reproduce the provision on the subject contained in the law of 1915, because the restriction on withdrawals was about to disappear. A decree of the 23rd September 1916 repealed the decree of the 30th July 1914 which had imposed the restriction.

The right given in 1915 to surrender 3 per cent *rentes* in payment of subscriptions to the loan had given rise to criticism. It was burdensome and of doubtful advantage to the State. It might have been useful in 1915, when the Minister of Finance wished to have all the good fairies round the cradle of the first war loan; but the success of that loan made recourse to it unnecessary on this occasion. The country had adapted itself to the economic conditions of the War: the war industries were producing, in the form of profits, enormous quantities of new capital; the peasantry were earning money; there would be no scarcity of funds to subscribe to the new loan.

The public subscription was open from the 5th to the 29th October 1916. The issue price was fixed at 88¾, which gave a rate of interest of 5.63 per cent; but where the subscriber paid all his installments at once, he became entitled to the coupon of the 16th November, which was deducted from the sum he had to pay; the price was thus reduced to 87½, giving a rate of interest of 5.70 per cent.

The loan of 1916 produced an effective total of 10,082,452,965 francs, composed as follows:

	<i>Francs</i>
Cash	5,425,330,947
National Defense Bonds	3,693,071,296
National Defense Obligations	956,271,911
3½ per cent <i>Rentes</i>	7,778,811
	<hr/>
Total	10,082,452,965

To ascertain the useful portion of the loan, the amount paid in the form of 3½ per cent *rentes* must be deducted; this leaves a sum

of 10,074,674,154 francs, of which payments in cash formed nearly 54 per cent.

VII. *The 1917 issue of 4 per cent rentes. Terms and results of the issue.*

The third war loan was issued in November and December 1917; the enactments relating to it are the law of the 26th October 1917, the decrees of the 28th October and 1st, 5th, and 10th November 1917, and the *arrêté* of the 1st November 1917.

This loan was of a different type from that of the two earlier loans. During the period that preceded it, discussions had taken place as to the form that it should take; adherence to the 5 per cent type was recommended in some quarters; in others a $5\frac{3}{4}$ or 6 per cent loan at par was proposed; certain persons carried on a campaign in financial circles in favor of lottery bonds, a suggestion that has again been made since, but the State so far has been unwilling to adopt it for its own loans.¹⁰ The choice by the Minister of Finance of the 4 per cent type occasioned some surprise.

If the military and political circumstances had been such as to enable the State to borrow at a more favorable rate than in the preceding years, the selection of the 4 per cent type would have been natural and would have been well received; it would then have been the consequence and the confirmation of an improvement in the public credit. But it was not so. The end of 1917 was one of the dark periods of the War; the decay of the military strength of Russia, the weakening of the Italian front, the defeatist campaign in France, all these things were not calculated to promote confidence. An issue of 4 per cent *rentes* meant an issue at a price much below par; as a matter of fact it was issued at 68.60. There would consequently be an enormous disparity between the nominal amount of the loan and the sum effectively produced by it; the State would become liable for very much more than it would have received, and the possibility of conversion would be postponed to a far later date than in respect of the two earlier loans. The law of the 26th October 1917 provides that the 4 per cent *rente* cannot be redeemed before the 1st January 1943.

¹⁰ The idea of lottery bonds has been realized in the issues made since the War by the *Crédit National*.

The loan of 1917 presented another peculiar feature. It was the only French war loan whose amount was limited. The law of the 26th October 1917 empowers the Minister of Finance to issue "the amount of 4 per cent perpetual *rente* required to produce an effective capital of ten billions of francs, including the material cost and various expenses of the operation." The restriction of the sum to be borrowed was however not absolute. The subscriptions obtained abroad were not liable to reduction; nor were those effected by the surrender of National Defense Bonds or Obligations or of $3\frac{1}{2}$ per cent redeemable *rentes*, nor were cash subscriptions for amounts of *rente* yielding not more than 300 francs of interest. Finally the law allowed a certain latitude for subscriptions liable to reduction, in the following way: if the effective capital represented by the irreducible subscriptions should exceed 8 billions, said Article 3 of the law, the figure of 10 billions contemplated as the total of the loan shall be increased, within the limit of the amount subscribed, by the amount of that excess. Thus, if the irreducible subscriptions reached 8500 millions, and the reducible subscriptions 2 billions, the total of the loan would be raised to 10,500 millions.

Two measures were adopted on this occasion, of a general character, applying both to the 5 per cent *rentes* of 1915 and 1916 and to the new 4 per cents. The object of both these measures was to encourage investment in war loans, on the one hand by making them available for the payment of the tax on war profits, and on the other by creating a fund for supporting them on the Stock Exchange so as to make their sale easier.

The tax on war profits had been imposed by the law of the 1st July 1916. It involved the payment of large sums by those liable to it. To accept the war loan stock in payment of the tax would have the effect of making it easier to pay the tax and at the same time of making the stock more attractive. It is true that the purpose of taxes is to provide the State with funds and not with the stock of its own loans. But the tax on war profits was of an exceptional and temporary character. When the State accepted stock in payment of the tax, it cancelled the stock, and this constituted in principle a sinking fund for the war debt, though on a very small scale; a small part of the debt created to pay for munitions was thus amortized, as a direct result of the tax on the profits which the war industries derived from the manufacture of munitions.

By the second measure, a credit was to be inserted in the general budget which should be used to set up a special fund for the purchase of war loan stock on the market. When large loans are floated at short intervals, their sale on the Stock Exchange is not easy; people who want to have Government stock among their investments subscribe for it at the time of issue; the more numerous the subscribers have been, the fewer are the subsequent purchasers. The market being saturated, sellers have difficulty in finding buyers, and a fall in the price ensues, which is at once damaging to the credit of the State and possibly discouraging to applicants for future loans. Funds for the purpose of supporting the market in war loans were set up in most of the belligerent countries. These are empirical measures, undoubtedly to be discouraged in normal times, but admissible at a period when anxiety to meet the requirements of the moment overrides all other considerations.¹¹ There was not, in fact, a free market in *rentes* during the War; transactions took place only at an official price, higher than that which the free competition of supply and demand would have established, and at this official price there were more sellers than buyers; the result was that sales of large amounts of *rentes* were impracticable.

The public subscription to the loan of 1917 was open from the 26th November to the 16th December. The issue price was 68.60, interest running from the 16th December, so that the real rate of interest was 5.83 per cent, a little above that of the two earlier loans.

¹¹ The supporting fund set up by the law of 1917 was maintained by monthly installments of 60 million francs, increased in 1918 to 120 millions, and then reduced to a yearly sum of 600 millions of francs. Purchases of 4 per cent *rentes* were not allowed at a price above that of issue, and of 5 per cent *rentes* at more than 87½; for the object was not to bring about a rise of prices, but to prevent too great a fall, which would have impaired the State credit. Stock purchased on the market out of the fund was to be cancelled, so that a sinking fund was thus constituted. The supporting fund was abolished in the budget of 1922.

The management of this special sinking fund was entrusted to the *Caisse des dépôts et consignations* [see Translator's note, p. 242]. This great institution gave its useful and discreet coöperation to the Treasury at all times of difficulty; in particular, it secured the success of the loan of 1919 (G. Martin, *Les finances publiques de la France et la fortune privée*, Part II, ch. III).

The effective capital subscribed was 10,209,073,212 francs, composed as follows:

	<i>Francs</i>
Cash	5,174,188,467
National Defense Bonds	4,582,744,344
National Defense Obligations	449,180,628
3½ per cent redeemable <i>rentes</i>	2,959,773
Total	10,209,073,212

The useful portion of the loan, after deduction of the 3½ per cent *rentes*, was accordingly 10,206,113,439 francs.

VIII. *The 1918 issue of 4 per cent rentes. Terms and results of the issue.*

The fourth war loan, issued in 1918, was akin to the last in its financial character. Like it, this was a 4 per cent loan, issued much below par, and inconvertible for 25 years. Although the choice of the 4 per cent type had been criticized in 1917, the Minister of Finance adhered to it in 1918. The issue price was fixed at 70.80, which gives a real rate of interest of 5.65 per cent. The State undertook not to redeem before the 1st January 1944. Like the 4 per cent *rentes* of 1917, and the 5 per cent *rentes* of 1915 and 1916, the new *rentes* were made available for the payment of the tax on war profits. Unlike the loan of 1917, that of 1918 was issued without limit of amount.

This loan of 1918 has certain interesting features. To begin with, its preparation was entrusted to a special loan commission (decree of the 30th July 1918). The report prefixed to this decree draws attention to the organization and methods of publicity adopted by the United States for the issue of their loans; reference might also have been made to the German methods. It is certain that the preparation of loans had not previously been carried as far, or organized as vigorously, in France as in other countries, and that in this respect there was room for much improvement.¹²

¹² The following are the terms of the decree of the 30th July 1918: *Art. 1.* A Loan Commission is attached to the Minister of Finance and placed under his authority, with the duty of preparing and taking all measures calculated to secure that future loans shall be issued under the most favorable conditions. *Art. 2.* The Loan Commission is composed of six members nominated

Moreover, as regards the payment of subscriptions to the loan, provisions that had not been adopted on the occasion of the earlier loans were inserted in the enactments relating to the loan of 1918. Treasury bills were assimilated to National Defense Bonds for this purpose. The coupons of French *rentes*, already due or due for payment on the 16th November and 16th December 1918, were accepted at their nominal value. Lastly, coupons of loans issued or guaranteed by Russia were, by the law of the 19th September 1918, accepted in payment of subscriptions, subject to the following conditions. Acceptance was limited to coupons maturing during the year 1918, and to coupons of securities quoted on the French Stock Exchange and owned by French citizens resident in France; payment in Russian coupons was restricted to one-half at most of the total of each subscription. The provision regarding Russian coupons was the last favor that the French State accorded to the unfortunate holders of Russian stocks; from a financial point of view it was certainly indefensible; but the French State had so cried up Russian loans and done so much to load the small and medium investor with them, that it could not but be conscious of a somewhat heavy moral responsibility in the matter.

The enactments relating to the loan of 1918 were the law of the 19th September, and the decree and *arrêté* of the 24th September. The public subscription was open from the 20th October to the 24th November.

The effective capital produced by the loan was 22,163,222,724 francs. Of the four loans issued during the War it was the most brilliantly successful: it was the Victory Loan. Authorized by the law of the 19th September, at a moment when the German armies had everywhere begun their retreat, it was still in course of subscription when the Armistice was signed. It was borne along by the wave of enthusiasm caused by the collapse of the German power.

by decree. The executive powers are entrusted to one of the members who receives the title of Commissary Delegate for loans. The decree nominating the commissaries appoints the Commissary Delegate. *Art. 3.* The Commission corresponds directly with the representatives of the State administrations, of the [geographical] departments, the communes, the colonies, and with associations, syndicates, chambers of commerce, and generally with all groups and institutions whose coöperation may appear useful. *Art. 4.* The organization of a secretariate is determined by ministerial *arrêté*. *Art. 5.* The Minister of Finance is charged with the execution of the present decree.

The effective capital produced by the loan of 1918 was composed as follows :

	<i>Francs</i>
Cash	7,246,037,519
Treasury bills	7,560,517
National Defense Bonds	13,255,100,550
National Defense Obligations	1,412,069,208
Russian coupons	239,370,424
3½ per cent redeemable <i>rentes</i>	3,084,506
Total	22,163,222,724

The useful portion of the loan, after deduction of the Russian coupons and the 3½ redeemable *rentes*, was 21,920,767,794 francs.

IX. *Appreciation of French policy in the matter of funding loans.*
Onerous character of the loans.

What strikes one at first in the French policy of war finance is the onerous character of the loans contracted. A high rate of effective interest, above 5½ per cent throughout; issue at a price below, and in the case of the two 4 per cent loans much below, par; a long period of inconvertibility; immunities from taxation. This feature is all the more striking that before the War France had for long been a country where money could be borrowed cheaply.

Germany, her principal enemy, adopted a much less onerous loan policy. Of the two categories of securities issued by Germany, the first, the Empire loans, invariably carried 5 per cent interest; the second, the Treasury bonds, were some of them of the 5 per cent and some of the 4½ per cent type. For both categories the price of issue was always very close to par. Moreover, whereas the issue of the French loans began very late (the first of them in November 1915), whereas they were not repeated at regular intervals and numbered only four in all during the War, the first German loan was floated in September 1914, and the others followed every six months, in March and September of each year. The German financial machine, by the almost automatic regularity of its working, gave an impression of power of which German propaganda took a large and legitimate advantage both at home and abroad.

The question has repeatedly been raised in France whether the State might not have obtained the funds it needed on easier terms.

There has been no lack of criticism. From the very first loan, it has been said, the State offered conditions that were unduly favorable to the subscribers; it erred through want of confidence. Seeing that it was the principal, almost the only, borrower on the market, that capital found only such opportunities for investment on that market as the State allowed in competition with its own demand, it was in a position to dictate its terms, or at least to offer terms appreciably less favorable than those which it granted from the first.

To inquire what would have happened had a different course been adopted is a somewhat vain pursuit. The fact that one is the only applicant for capital on a market is not sufficient to enable one to obtain it on one's own terms: the conditions offered must also be sufficiently attractive to draw out the capital that is being hoarded. If the borrower's need of capital is greater than the capitalist's need of investment, the former cannot escape from the necessity of offering terms sufficiently advantageous to tempt the latter. Now, that was precisely the position of the French State in regard to owners of capital.

If Germany was able to borrow on less onerous terms than France, it was because her situation was far more favorable. German wealth, in absolute figures, was greater than French wealth, and Germany's annual savings were substantially larger than those of France.¹³ The War, which from the first weeks was waged on French territory, had robbed her of a considerable part of her productive power. The unequalled prestige of the *Reich* over its subjects was skilfully utilized by the German Government in support of a financial policy that brought into play other motives besides the pecuniary interest of the subscriber to loans. M. Rist has made some excellent remarks regarding that Government's "power of suggestion." "The loans," he says, "were presented as one of the forms of battle. The will to subscribe is for the civilian what the will to conquer is for the soldier. Not to subscribe or to subscribe too little is a desertion similar to flight before the enemy. The success of the loan is a victory to be won, which will depress the enemy not less than the retreat of his troops or the crushing of one of his allies."

No doubt all Governments can say these things, and they all did

¹³ Germany's annual savings before the War were estimated at some ten billions of francs; those of France at four to five billions, though this figure is too low.

so during the War. But the important point is not to say this or that, but to succeed in decisively affecting the will and the action of those who hear. The German Government was in a position to obtain better results from such language than any other Government. Its power, its prestige, the means of pressure at its disposal, the degree of training for war to which it had brought the German people, the discipline and the credulity that made the latter accept as a kind of divine utterance anything that the authorities said, these were essential conditions of the financial policy pursued by Germany during the War. No other Government could have achieved such results by the substitution in the matter of loans, for the pecuniary interest of the individual, of the sense of the collective interest of the community. Moreover, Germany was carrying on the War in enemy territory, and for a long time considered herself victorious; for the issue of loans, this was the best possible advertisement.

The French Government was in a far more difficult position. The War was being waged on French territory, a source of terrible strain, both materially and morally. The fearful gaps in the preparation for war, revealed to all eyes by the defeats of the early weeks, by the invasion, by the economic and financial confusion, were not calculated to raise a prestige that was already, in peace-time, none too high. Moreover the habit had long since been lost of appealing to the public interest; among the meanders and morasses of party politics, the sense of the public interest, of its predominance over individual desires, had little by little been diluted and lost. On the field of battle the innate bravery of the race had once more shown itself brilliant and intact. But it would have been unwise to reckon on the same spirit of self-sacrifice in financial matters. This could have been tried, and without certainty of success, only if the future subscribers to loans had been adapted beforehand by a slow and serious course of moral training. Nothing had been done or even attempted in this direction. The Government was therefore wise in confining itself to endeavoring to draw up such conditions of loan as would attract the subscriptions it needed. Given the circumstances, these conditions could not but be onerous.

CHAPTER VI

EXTERNAL LOANS. THE NECESSITY FOR THEM. POLICY ADOPTED TO RESTRICT RECOURSE TO FOREIGN CAPITAL

I. Magnitude of the foreign war debt. Reasons for its creation.

FRANCE had no foreign debt before the War. Such loans as it required it floated on the home market, and if a certain amount of French Government stock was held abroad, it was probably inconsiderable. The stock of the national loans was held almost entirely in France, and the French market was one of the great reservoirs of capital on which foreign States and foreign enterprises were accustomed to draw. France was a lender and exporter of capital.

The War changed this situation. Many things required for the conduct of the War and for the subsistence of the civil population had to be obtained from abroad, and the means of payment could be procured only by foreign credits—credits that were frequently furnished by the very country that supplied the goods, which thus became a lender as well as a seller, and provided the means by which France paid for what she bought.

As early as 1916 budgetary documents bear witness to the concern felt by the French Government with regard to the payments to be made abroad. In connection with the bill, presented on the 8th May 1916, granting provisional credits for the third quarter of the year, the Minister of Finance expressed himself as follows: "The question of the exchange on countries where we effect purchases, and particularly on England, where most of our payments are made, is one of those which most engage our attention." There are, from this time on, few budgetary papers, bills, or reports of parliamentary committees that do not deal with this question and set forth the measures taken to defray the cost of foreign purchases.

The foreign debt grew from year to year with the prolongation of the War. The following table shows the yearly amounts procured

by foreign loans; the sums borrowed in foreign moneys have been converted into francs at the mean rate of exchange of the year.

<i>Lending country</i>	<i>Millions of francs</i>						<i>Total</i>
	<i>1914</i>	<i>1915</i>	<i>1916</i>	<i>1917</i>	<i>1918</i>	<i>1919</i>	
America	51	1845	1624	7532	5388	9267	25,707
Great Britain		814	6968	3997	1594	1759	15,132
Spain			131	67	570		768
Switzerland				46	164	73	282
Scandinavia		147	47	11			205
Other countries			30	232	979	249	1,490
Total	51	2806	8800	11,885	8695	11,348	43,585

From this total of 43,585 millions of francs should be deducted the amount of repayments effected by the Treasury from 1915 to 1919 and not comprised in budgetary expenditure, *viz.*, 4162 millions. The net amount of the funds procured by means of foreign loans during the period in question was thus 39,423 millions, or about 23 per cent of the exceptional resources (internal and external loans and advances by banks of issue) created during that period.

The funds derived from foreign loans performed a double function. They furnished an addition, and a substantial addition, to the financial resources drawn from the country itself. It may be doubted whether France, invaded, deprived of her richest provinces, obliged to mobilize every man capable of service, would have succeeded in procuring on her own market, by tax or loan, the immense sums required to carry on the War. But the foreign loans fulfilled another function, of capital importance: even supposing that France had been able to find the necessary funds at home, she had to make payments abroad, to transfer funds. How was this to be done? The foreign loans furnished her with the means of paying for the supplies of all kinds that she drew from abroad, and without which she would have been unable to equip and arm her forces and perhaps to feed her population for so long a period.

France at all times and when able to work at full capacity is an importer of coal and raw material. What the customs statistics describe as "material necessary to industry" represented before the War from 60 to 65 per cent of the total imports, while exports of this class formed only 25 to 30 per cent of the total sales abroad.

It was the opposite with manufactured articles; they represented less than 20 per cent of the imports and from 55 to 60 per cent of the exports. France is a country that buys raw materials and sells manufactured products, and pays for the former with the latter.

Imports were much increased by the War. The average value of the imports for the two years 1912 and 1913 had been 8326 millions of francs; here are the figures for the years 1914-1919;

<i>Years</i>	<i>Imports</i> (<i>In millions of francs</i>)
1914	6,402
1915	11,036
1916	20,641
1917	27,554
1918	22,301
1919	29,779
	<hr/>
Total	117,713
Yearly average	19,619

It is true that the increase is only in the values, and that the quantities imported were on the average less than in the years before the War. But as the question was that of finding means of payment, it is the values that we must consider. How was France to pay for these imports?

In normal times and for many years back, France had been selling less than she bought abroad. The difference between the values of imports and exports was of the order of $1\frac{1}{2}$ billions of francs. But the economic balance was in France's favor because the debt arising out of foreign commercial operations was more than compensated by credits abroad drawn from other sources, by the revenue of French funds invested abroad and the expenditure of foreigners in France. French holdings abroad, consisting mainly of securities, were being increased yearly by the excess of her credits over her debts; foreign payments presented no difficulty.

Now at the same time that the War increased imports, it diminished exports, enormously in respect of quantities, substantially in respect of values, in spite of the rise in prices. Quantities declined from 221 million quintals¹ in 1913 to 41 millions in 1915, and to less than 40 millions from 1916 to 1918, the minimum being 30,111,240

¹ A quintal = 220 lb. or roughly one-tenth of a ton.

quintals in 1917; even in 1919 the recovery was only to a little more than 55 million quintals. As regards values, whereas a figure of 6880 millions of francs had been reached in 1913, here are those of the war years :

<i>Years</i>	<i>Exports</i> (<i>In millions of francs</i>)
1914	4,869
1915	3,937
1916	6,215
1917	6,013
1918	4,723
1919	8,713
	<hr/>
Total	34,470
Yearly average	5,745

The profound decline in exports is one of the symptoms of the economic disturbance that the War had created in France. Few of the other belligerents lived the tragedy of war with the same intensity as did France; England in particular, and later the United States, were spared this experience. A people that has not known war on its own territory, with claws fastened on its quivering hills and plains, has not really known war and cannot understand it entirely. Neither England nor the United States ceased to work and to produce for other purposes than the War itself; their commerce was not arrested; for long it remained very lucrative, more so even than in peace-time. They will never be able to realize how great was the effort put forth by a people which was fighting for its territory and its national life, and which was obliged to throw all its strength, all its resources in men and wealth, into the struggle.

The gap between the values of imports and exports for the period 1914-1919 was 83,243 millions of francs. This gap could not be stopped by the revenue from foreign investments, which on the most favorable estimate did not exceed 2½ billions of francs before the War and which the War had certainly reduced. The expenditure of the allied armies on French territory, at first of the British army, and later of the American army, was no doubt an item on the credit side of the account; but if this replaced the credit item produced in peace-time by the expenditure of travellers and tourists, it was certainly insufficient to make good the whole deficit in the account.

This expenditure was nevertheless considerable and grew with the growth of the allied armies.²

The lack of equilibrium in the account began to manifest itself early in 1915 by the rise of foreign exchanges in Paris. During the first months of the War, after the confusion of the month of August and the first half of September 1914, when there were practically no exchange transactions, the franc stood at a premium. France was at that time a creditor, and French banks were calling in their available funds. Down to January 1915, nearly all the foreign currencies remained below par in Paris. A change set in with February 1915. As the report on the operations of the Bank of France for 1915 observes, "the month of February saw a complete change in the position of our foreign commitments. Our foreign credits no longer balanced our debts, which were increased by heavy imports, intended to make good the deficiencies in our supplies and in our home production. The price of most foreign currencies rose above the par of exchange. This happened first with the exchange on Spain and New York; a few days later with the exchange on London, and in the first half of May with the exchange on Switzerland and the Scandinavian countries."

On the 30th July 1915 sterling was quoted on the Paris market at 27.13; the dollar, at 5.70; the Swiss franc at 1.065; the peseta at 1.078; the Netherlands florin at 2.285; the Swedish krone at 1.48. These foreign currencies thus enjoyed a premium over the franc varying from 6.5 per cent (Swiss franc) to 9.69 per cent (Netherlands florin).

In connection with the bill of the 12th September 1916 granting provisional credits for the fourth quarter of the year, the Minister

² A distinction must be drawn between the expenditure by the allied States on their armies and the private expenditure of the officers and men. As regards the former the French Treasury became the cashier of the British and subsequently of the American Treasuries. It defrayed the expenditure in France of the allied armies and received the equivalent in pounds and dollars, which served to pay for French expenditure abroad. As regards the British army, a statement by M. Klotz, Minister of Finance, in the Senate on the 27th May 1919, shows that the payments made in francs by the French Treasury amounted to 4261 millions of francs. In addition to this, there were the sums that the officers and men of the allied armies had remitted to them from home, but we have no precise information as to their amount.

of Finance gave, as the average monthly amount payable abroad in 1915 by the Treasury, the figure of 250 million francs; he added that, at the time, the average monthly payments amounted to nearly 600 millions, with a tendency to exceed this sum owing to the increase of purchases.

The problem before the Government was thus extremely serious. The foreign exchanges were rising because the means of paying for purchases abroad were inadequate. In normal times, when an exchange rises, it releases economic forces that tend to reestablish equilibrium; the mechanism is well known. But the times, in truth, were not normal. The greater part of the imports were indispensable; France had to go on importing, at any cost, the goods necessary for the armies in the field, for the manufacture of munitions, and for the supply of the civil population. It was practically impossible to increase exports, because the whole of the country's productive forces were already employed. The stock of gold at the Bank, if its free export had been allowed in order to make good the deficit, would soon have been dissipated. The problem was not the general one whether a Government should or should not intervene to restore the stability of the exchange when that stability is upset; that is a problem on which experts may, in peace-time, discourse at leisure. The problem was that of finding a sufficiency of means of payment to enable France to continue the purchases without which she would have lost the War.

The French Government, under pressure of necessity, attacked the problem from various sides. The measures adopted may be grouped under four categories:

(1) Measures calculated to restrict foreign purchases and consequently to diminish the amount of foreign payments.

(2) Measures designed to stop the export of capital and to reserve such exchange as was available for what were deemed the most useful purposes.

(3) Policy of utilizing the gold reserve and foreign securities held in France.

(4) Foreign loans.

In analyzing the measures in this way some years after the event, one runs the risk of giving them an appearance of logical precision which in reality they did not possess. It would be incorrect to suppose that the authorities at an early stage considered the problem

as a whole and drew up a rational scheme for resolving it. It was little by little and fragmentarily, under the pressure of circumstances, that partial solutions were devised. The War confirmed the ancient doctrine of the difficulty men find in dominating, or even in merely understanding, the events with which they are concerned; the circumstances changed so rapidly during this war that one was always too late if one attempted to deliberate before acting. There was accordingly, in everything undertaken, much that was empirical, and the subsequent narration of what was done inevitably makes it appear far more logical and rational than it was.

II. *The measures taken to restrict consumption. The economy campaign. Tariff policy.*

In normal times, when the machinery of commerce and transport is working freely, production and consumption may be left to regulate each other through the movement of prices. In a country that is at war, where production is inadequate, it is reasonable and necessary to adopt a policy of rationing. This policy was carried out in France, in respect of several commodities, by the system of food cards. The consumer was able to obtain only a limited quantity of the commodities subjected to this régime, on presentation of his food card or of coupons detached therefrom. During 1917 were instituted the bread card, the sugar card, and the petrol or gasoline card; in 1918 the consumption of paraffin oil was likewise regulated. The system was completed by various prohibitions: it was forbidden to make pastry or biscuits from wheaten flour, and to sell fresh milk and cream in cafés, bars, or restaurants after 9 A.M.; the percentage of extraction of flour from grain was regulated; meatless days were instituted, and so on.³

Consumption may be influenced by methods of control, and also by methods of persuasion. Various private associations attempted to apply the latter; the most active of them was the *Ligue nationale des économies*, founded in 1916 by certain men of goodwill. The League endeavored to imbue the public, through pamphlets, news-

³ The French food supply policy is fully and clearly set forth by M. Marin, deputy. (*Rapport fait au nom de la Commission du budget chargé d'examiner le projet de loi relatif au compte spécial du ravitaillement créé par la loi du 16 Octobre 1915; annexe au procès-verbal de la séance du 28 juin 1918, session de 1918, No. 4082.*)

papers, and posters, with the idea that everyone must economize: economize in order to subscribe to the State loans, to diminish imports, to relieve the pressure on transport, to keep down the foreign debt. The campaign thus conducted never had the degree of publicity required to make it efficacious. Carried on with financial means that were never proportionate to the zeal of its promoters, encouraged by the authorities more in words than in deeds, practically the only social circles that it reached were those which did not require to have economy preached to them, because whether from necessity, from intelligence, or from patriotism, they practised it already—that is to say, the average middle class, university, and official circles, all of them people whom the War was impoverishing. As for the war profiteers, whether of the middle classes or proletariat, speculators, brokers, manufacturers, munition workers, they were spending open-handedly money that had been easily come by, and were not disposed to listen to counsels of economy, even if those counsels had reached their ears.⁴

It was especially by its tariff policy that the French Government endeavored to restrict consumption.⁵ The War restored to the region of practical politics, in regard to international commerce, the aims and methods of the seventeenth and eighteenth centuries. What appeared essential was no longer, as in peace-time, to secure for the producer remunerative prices by means of an appropriate tariff, but to procure for the nation the foodstuffs and raw material that it required. Exports were first regulated. Then, as the means of transport and the means of payment were limited, and became more and more so as the War went on, imports also had to be restricted, not with a view to protecting the home producer, as in peace, but to reserving the national resources for the purchase of indispensable supplies.

From the moment of the outbreak of war, the French Govern-

⁴ The *Ligue nationale des économies*, whose address was 36 Rue Vaneau, Paris, has published a series of tracts which offers a certain historical interest.

⁵ On the subject of tariff policy during the War, the reader may consult Aftalion, *La politique française en matière d'importation pendant la guerre* (*Revue d'économie politique*, 1919), and Gignoux, *La politique commerciale de la France depuis 1914 et les consommateurs* (*Revue des études coöperatives*, 1922).

ment, in virtue of the powers conferred on it by the law of the 17th December 1814, issued a series of decrees suspending the export of such agricultural or industrial products as it seemed expedient to keep for home consumption. According to a classification that was maintained throughout the War, the products in question were divided into three classes:

- (a) Those whose export was prohibited, whatever the destination.
- (b) Those which might be exported to an allied country without special authority.
- (c) Those which, on the advice of an inter-ministerial commission dealing with exceptional cases, might be exported to an allied country, or to certain neutral countries.

The law of the 6th May 1916 gave the Government, as regards imports, powers analogous to those which it possessed, as regards exports, in virtue of the law of 1814; it was empowered thereafter to prohibit the entry of foreign goods or to increase the customs duties, by decrees adopted in Council of Ministers.⁶

At first only a moderate use was made of the powers conferred by this law: the decree of the 11th May 1916 prohibited the import of goods that might be considered as articles of luxury; the list was not a long one and was not much increased by the subsequent decrees of the same year.

A phase of more energetic application was opened by the decree of the 22nd March 1917. Hostilities were dragging on, the transport crisis and the difficulty of finding means of payment were becoming more serious. The decree in question enacted a general prohibition of the import of all goods of foreign origin other than those purchased for State account. So radical a measure, however, could hardly be literally applied. Article 3 of the decree set up a "Committee of Exceptions," with the duty of drawing up proposals for general exceptions in favor of certain articles, and for the importation of authorized quotas of other articles, quotas that were to be determined every three months. There were thus two kinds of possible exceptions to the régime of prohibition, and these exceptions were provided for by the decree itself and deemed necessary for the practical working of the régime.

⁶ The law of 1916 originally applied only to the period of hostilities; its validity was extended on successive occasions, and only terminated on the 1st January 1923.

The system of prohibition, moreover, was not applied in conformity with the provisions of the decree. To fix authorized quotas of imports was a business involving previous study and considerable delay, so that the system of quotas was replaced by that of special exceptions granted in individual cases. There were on the one hand the classes of goods, restricted in number, which came under a general exception, and on the other those whose import was prohibited in principle, but which were admitted in virtue of special licenses. Taken as a whole, these licenses were issued on a fairly liberal scale. The principle of prohibition tempered by exceptions gave the State control over purchases abroad; hence arose little by little various organisms entrusted with the duty, some of estimating the country's requirements of foreign goods, others of distributing the goods purchased among the parties concerned. The "Materials Committees," set up at the Ministry of Commerce and composed of officials and representatives of manufacturers and dealers, had the duty of estimating requirements and passing on the applications put forward by private persons or by the public services. The *consortiums*, associations of manufacturers and traders, with the work of which, however, the State was closely connected, supplied the machinery for distributing the goods imported. After the Allies had decided, at the London Conference of the 3rd December 1917, to pool and coördinate their resources, the French Government set up an "executive committee on imports" which settled in the last resort the quantity and nature of the goods to be imported. A little later, on the 8th March 1918, a "Superior Commission on foreign purchases" was instituted. Its duty was to settle, within the limit of the sums fixed by the Minister of Finance, the programs of purchases, and the order of priority in which accepted applications should be met. We thus see gradually attaining complete development, an organization of trade in war-time in which the State exercised control over imports.

III. *Control of the exchange market.*

All the belligerent countries imposed restrictions on the freedom of transactions in exchange. Some went so far as to institute a monopoly; this was done in Russia, Italy, Germany, and Austria.

In Great Britain, the United States, and France, the Government confined itself to measures of supervision.⁷

In France, as early as the month of July 1915, the Bank of France, at the instance of the Ministry of Finance, summoned a meeting of the principal bankers with a view to studying the exchange situation and examining what measures might with advantage be taken. The idea of instituting a monopoly of exchange was considered at this meeting and rejected as impracticable and ineffective. It was finally decided that the Bank of France should send an appeal to the bankers, requesting them in the general interest to observe the following rules in their exchange transactions:

1. To refrain from supplying exchange to foreign governments without the authorization of the French Government.

2. To refrain from supplying exchange to foreign banks with branches in France, except on proof of the commercial requirements of their French clients.

3. Absolutely to refuse exchange to any persons desirous of sending capital abroad, and in particular of purchasing or subscribing to foreign securities.

The conference further expressed the opinion that the Government should invite bankers to do their utmost to procure funds abroad by all possible measures that did not commit the Bank of France, such as sale of securities, borrowing on securities, etc. Finally it pointed out that the task of its members would be greatly facilitated if it were possible, without detriment to national defense, to check the flowing tide of foreign purchases.

The outcome of this bankers' conference was thus an appeal to voluntary discipline, and it would seem that this discipline was fairly well observed. The Bank of France, by reason of its moral authority, was trusted to maintain it. From the outbreak of war it made its influence felt on the exchange market. It placed its own exchange resources at the disposal of the market and served as the intermediary by which the French Treasury handed over any exchange that it could spare for the use of private persons. It laid it down as a rule to sell exchange only on proof of commercial requirements, save in exceptional circumstances. The total amount

⁷ On the control of exchange transactions and the problem of exchange during the war, the work of Decamps, *Les changes étrangers*, 2nd ed., 1923, may be consulted with advantage.

of exchange sold through the Bank of France down to the end of the War was about 15 billions of francs.

The prolongation of the War obliged the French Government to undertake a more direct and official control of the exchange market. As a result of discussions with the allied governments and of an agreement as to the measures to be taken in this respect, an *arrêté* of the Minister of Finance under date of the 6th July 1917 set up an Exchange Commission. It was entrusted with the duty of "studying all measures calculated to maintain the exchange value of the national currency in foreign currencies and to obviate the financial consequences of the unfavorable trade balance." Its rôle was merely consultative, but in practice its influence was very great. It was a proposal submitted by this Commission to the Minister of Finance that brought about the law of the 1st August 1917; this law imposed on all persons pursuing the profession or business of collecting, buying or selling, dealing in, discounting, encashing or paying, foreign monies or currencies, the obligation of keeping a register of all their transactions. This was destined to facilitate the general supervision exercised by the Commission and carried out by means of a series of instructions, general or particular, addressed to bankers and exchange brokers. It was likewise the Exchange Commission that submitted to the Minister of Finance the draft regulations that were embodied in the law of the 3rd April 1918. The object of this law was to regulate the export of capital and the import of securities. It was thereby forbidden, except with the authority of the Minister of Finance:

(1) To constitute abroad, by any method of credit or exchange, a holding of securities or funds by way of deposit or investment; to make a loan to any person residing outside France; to purchase outside France any securities, property, or goods, if the transaction involved, on the part of the purchaser or of the person for whom the purchase was effected, any transfer abroad of funds or securities.

(2) To send out of France, with a view to their realization through some person residing abroad, securities whose purchase price was not to be acquitted by a payment in francs, or which would give rise to a credit in foreign currency to be employed otherwise than in accordance with the provisions of the law.

(3) To import into France securities representing, directly or indirectly, part of a property or a credit.

The law of the 3rd April 1918 was to be operative only for the period of hostilities, and its validity was to cease three months after the legal date when these terminated. It was extended on successive occasions and is still in force; it is quite possible that, in spite of the legitimate protests of business and financial circles, this war regulation, instituted provisionally, may by successive extensions become a lasting part of the economic legislation of the country. Admissible as it was in the abnormal conditions of the War, it is today only a hindrance, and instead of assisting, impedes the maintenance of the franc on the exchange market. But the Parliament and the Government departments are permeated with the mercantilist spirit, which no experience is capable of dislodging.

IV. Utilization of the stock of gold and of the holding of foreign securities.

France, before the War, held a large quantity of gold, amassed as a result of a long period of favorable exchanges and of the prudent policy of her bank of issue. At the end of 1913 the gold held at the Bank of France amounted to $3\frac{1}{2}$ billions of francs, and on the 30th July 1914 it had risen to nearly 4150 millions. As regards the French holding of foreign securities, this represented a capital sum between 40 and 50 billions of francs. For a long time past a considerable portion of the national savings had been invested each year in foreign securities, and the impulse in this direction that had been given to investment had not failed to arouse keen criticism; it had however at least created a foreign credit which could now, to some extent, be utilized.

Gold and securities constitute means of settlement for a country whose balance of accounts is unfavorable. In normal times gold plays only a subsidiary part in international exchange; in France's foreign trade before the War, imports and exports of gold, in bars or coins, constituted substantially less than 10 per cent of the total trade movement, and this was a higher proportion than prevailed in many other countries. As to the foreign securities held, it was the interest and dividend on these that formed part of the stream of international settlements and represented an annual credit of more than two billions of francs; the capital, so far from being required to pay an excess of debts, increased yearly as a result of fresh investments.

We will now explain briefly how the stock of gold and the holding of foreign securities served during the War to procure foreign exchange.

§1. Gold may be exported in direct settlement of debts; purchases effected abroad are paid for in gold, if bills of exchange on the creditor country cannot be found on the market and it is impossible to draw on that country. It may also serve as the basis for the opening of credits. It was the second of these two methods of utilizing gold that was by far the more extensively resorted to.⁸

The export of gold on private account was not prohibited until the 3rd July 1915 by a decree of that date; until then members of the public were able to send gold abroad. But as the Bank of France no longer delivered gold except for reasons that it considered satisfactory, and as private individuals were reluctant to part with their reserves, consignments of gold on private account cannot have amounted to much. The Bank itself, during the first months of the War, did not refuse to place gold at the disposal of importers when it appeared that this would have a beneficial effect on the exchange. After having exhausted the supplies of exchange that it had purchased during the second half of 1914—more than 400 million francs worth—it began, from August 1915, to export gold to England, America, and Spain; these exports of gold amounted to more than 160 million francs.

But, as the War went on and the payments to be made abroad reached enormous sums, it very soon became necessary to adopt a definite policy in regard to the utilization of gold. The policy that prevailed consisted in concentrating on the essential points and in making use of the exported gold not to pay directly for purchases, but to obtain the opening of credits. London became the center of international settlements for the countries of the Entente. It placed at their service its financial prestige, its sound and long-established organization, and its relations with all the markets of the world. The Entente countries, and France in particular, placed gold at its disposal and thus enlarged for the common advantage its capacity for arranging loans and settlements.

⁸ The question of the employment of gold has been very fully discussed in a paper communicated by M. Decamps to the *Société d'économie politique de Paris* on the 5th April 1918: *L'or et les règlements internationaux pendant la guerre*.

This was a judicious policy and experience proved its wisdom. But it was not adopted without controversy. In some quarters a policy was advocated which would have consisted in supporting the exchange everywhere, in sending gold wherever the value of the franc fell. There was no other object, said the partisans of this policy, in holding a stock of gold, and it was not worth while to have accumulated large quantities of gold during peace if they were to be jealously guarded during war, just when the stability of the national currency needed defense. We may remark in passing that if this policy had prevailed, the stock of gold in the Bank of France would soon have been dissipated, and the exchange and the value of the bank note would have been left without any support.

The first arrangement concluded by the British and French Treasuries on this subject was that of the 30th April 1915. The Bank of France handed over £20,000,000 of gold; against this the English Treasury lent the French Treasury £62,000,000. Arrangements of the same kind were made in 1916 and 1917. But a change was introduced into the legal aspect of these transactions. The first two involved the sale of gold by the Bank of France, and thus relieved the Bank of England of the obligation of returning the gold on repayment of the loan. In the subsequent arrangements, the gold was no longer sold but lent; consequently the Bank of England is obliged to return the gold to the Bank of France as the credits are repaid, the proportion between the amount returned and the sum repaid being the same as in the original transaction. These loans of gold are represented by the item "gold abroad" which was inserted in the balance sheets of the Bank of France in 1916. A certain amount of the gold lent has been returned since the end of the War; at the end of 1922 the item "gold abroad" amounted to 1864 million francs.⁹

The agreement of the 30th April 1915 opened in favor of the French Treasury a credit of a little more than three times the amount of the gold delivered by the Bank of France to the Bank of England; a credit of £62,000,000 against a sale of gold of £20,000,000. This proportion was maintained in the subsequent transactions, ex-

⁹ Doubts have been raised as to the legal character of the transactions described as loans of gold; a discussion of the question will be found in an excellent thesis of the *Faculté de Paris*: Albert Goutte, *Des principales opérations du Trésor français depuis le début de la guerre de 1914 jusqu'à l'intervention des Etats-Unis* (1923).

cept in that of the 8th February 1916, by which an immediate credit of £18,000,000 and monthly credits up to a total of £10,000,000 were granted in return for a sale of £12,000,000 of gold. The agreement of the 25th April 1916, with the supplementary agreement of the 19th January 1917, provided for a British credit of £72,000,000 against the loan of £24,000,000 of French gold; that of the 24th August 1916, with the supplement of the 28th March 1917, provided for a British credit of £150,000,000 against the loan of £50,000,000 of French gold; finally the agreement of the 28th March 1917 provided for a British credit of £25,000,000 against the loan of £8,222,000 of French gold. The stock of gold was thus, by a judicious combination of credits opened and gold delivered to England, far better utilized than if it had been employed directly in payment for purchases abroad.

The report presented to the general meeting of shareholders of the Bank of France on the 30th January 1919 summarizes as follows the issues of gold made during the War: the amount withdrawn from the stock of gold was 3022 millions of francs, of which 1955 millions represented loans of gold to the Bank of England; in return for these deliveries of gold exchange was made available to the value of more than 9 billions of francs.

In order to reconstitute the reserve of gold which these withdrawals was depleting, an appeal was made to the public. The "gold campaign" was conducted with the greatest success; its progress may be followed in the annual reports of the Bank of France. If we include a few purchases of gold made abroad during the first months of the War, the gold received by the Bank of France from 1915 to 1918 amounted in round figures to 2400 million francs.

§2. As soon as the value of foreign currencies began to rise, the holders of foreign securities found it advantageous to sell them in order to profit by the difference in exchange. But many reasons might make the holder hesitate, or might make the sale impossible. Uncertain as one was as to the economic consequences of the War, it might be prudent, from the standpoint of private interests, to retain securities expressed in foreign currencies, in currencies of countries which, far from suffering from the War, were deriving profit from it. Even the public-spirited investor, who would have been led to sell his foreign securities by his desire to contribute to the support of the franc, or the capitalist who would have been ready to do so

for the sake of the immediate profit, did not always find it possible to sell; the London Stock Exchange, which was the principal market for such foreign securities as might have been sold with advantage, was open for the sale of only those securities of which the holder was able to prove that they had been in physical possession in the United Kingdom since the 30th September 1914.¹⁰

The Anglo-French agreement of the 11th February 1916 opened the London Stock Exchange to sales of French origin, through the intermediary of the Bank of France. The Bank was required to certify that the securities offered for sale had been the property of French persons since before the War. The orders to sell were transmitted by it to the Bank of England, which alone had the duty of carrying them out; it credited the Bank of France with the proceeds of the sale and the credit might be employed only for commercial payments in Great Britain. These restrictions were withdrawn in August 1919. The sales effected on the Stock Exchange through the Bank of France while they were in force were not very considerable; they amounted to 330 million francs; if we add sales effected on other markets by the Bank we get a total of 363 millions.

The French Government endeavored to make a more direct use of the foreign securities held by its nationals, and for this purpose undertook two kinds of operations—it purchased securities and it borrowed securities.

The purchases began in June 1915. The French Government proposed to holders of various categories of American bonds to purchase these from them. These bonds were: (a) $3\frac{3}{4}$ per cent bonds of the Pennsylvania Railroad; (b) 4 per cent bonds of the Chicago, Milwaukee and St. Paul Railroad; (c) 4 per cent Central Pacific bonds; (d) 4 per cent bonds of the New York, New Haven and Hartford Railroad. Once in possession of the bonds, the Government was able either to sell them on the Bourse, or to use them as cover for credit; or to dispose of them to the issuing companies.¹¹ A few

¹⁰ This restriction was enacted by the regulation of the 28th November 1914, issued in view of the reopening of the London Stock Exchange, which took place on the 4th January 1915. Its object was to prevent the sale in the United Kingdom of securities whose origin and ownership could not have been easily verified.

¹¹ The operation presented a certain difficulty, owing to the fact that, for reasons connected with taxation, the bonds had been issued in a form which

other purchases of bonds were effected by the French Treasury. The principal was the repurchase of the Japanese bonds issued on the Paris market in 1913; the French banks acquired these bonds from their clients on behalf of the French Treasury, which sold them to the Japanese Treasury. This furnished the Japanese Government with an opportunity of resuming, on favorable terms, a portion of its external debt.

The operation of borrowing securities was begun by the French Government in May 1916. The decree of the 5th May 1916 enumerated certain securities that might be loaned to the State. The securities so lent were employed by the State as cover for advances granted or for credits opened in its favor. Apart from the greater ease with which the French State found lenders as a result of having securities to pledge, it should be observed that as regards the United States in particular the amount of the credits obtainable was much extended by the provision of collateral. For by the terms of the Federal Reserve Act of the 23rd December 1913, the aggregate of notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted by a Federal Reserve Bank for any one bank was at no time to exceed 10 per cent of the unimpaired capital and surplus of the latter bank; but this restriction did not apply to the discount of bills of exchange drawn against actually existing values.

Since the French State borrowed securities for the purpose of pledging them, it was necessary that it should be in a position to sell them: the guarantee that the creditor derives from the pledge lies in the possibility of realizing its value. Article 4 of the decree of the 5th May 1916 accordingly gave the State the right of purchasing the securities that had been lent to it. As a matter of fact this was not a mere measure of precaution, and the greater part of the securities lent to the State were subsequently acquired by it; their sale price served to reimburse a portion of the advances obtained abroad by the French Treasury.¹²

To make the operation attractive to the owners of the securities, the decree of the 5th May 1916 assigned to them a bonus in addi-

made them negotiable only on the Paris market. A solution was found, thanks to an arrangement with Messrs. J. P. Morgan & Co. For the details, see the essay by M. Goutte, above-quoted, Part II, Chapter V.

¹² *Arrêts* of the 13th September 1918 and 15th March 1919.

tion to the revenue of the security. The lender of the security continued, of course, to draw the interest or dividends, and received besides a sum equal to one-fourth of the gross annual revenue. This bonus was paid in advance, for the first year at the moment of delivering the security to the State, and for subsequent years at the maturity of the first coupon of the year; the bonus was calculated without profit on exchange, but as regards the revenue proper of the security the owner naturally retained this profit.

The decree of the 5th May 1916 gave a list of admissible securities; these pertained to Denmark, Norway, Sweden, the Netherlands, Switzerland, Uruguay, Brazil, the Argentine, the province of Quebec, the Suez Canal, and Egypt. A second list published in the *Journal Officiel* of the 29th May 1916 related to securities of the United States and Canada.

The total value of the securities loaned to the State was about two billions of francs. This may appear a small sum in relation to the magnitude of the French pre-war holding of foreign securities. But that holding consisted, for the greater part, of securities that the War had very much depreciated and that did not figure in the list of those which the State desired to borrow—Russian, Turkish, Bulgarian, Rumanian, Serbian securities, securities such as the holder could not contemplate without melancholy and would have been glad enough to sell to the State at their pre-war value. The question was raised on various occasions whether it would not be expedient that the State should be empowered to requisition the foreign securities that might be useful to it. The British Government had this power from January 1917, the German Government also obtained it in March 1917. The French Government did not dare adopt this measure of coercion. It was afraid of damaging its credit thereby, and of checking the movement of investment in National Defense Bonds, the principal resource of the Treasury. The requisition of foreign securities capable of being utilized to secure exchange would not have yielded a sum large enough to compensate for the serious risks of the operation.

CHAPTER VII

EXTERNAL LOANS. THE METHODS OF ISSUE

THE majority of the foreign loans were issued in England and the United States. We shall devote the first two sections of this chapter to the loans contracted in these two countries, and then deal with loan operations in other countries.¹

I. *Credit operations effected in Great Britain.*

France found a favorable field in England, from the early months of the War, for the credit transactions that she had to effect. London was the greatest financial market in the world; in London the banks had long been powerfully organized and the habit of foreign loans was well established. Whereas the United States, in spite of their wealth and economic progress, had remained until 1914 a borrowing country, which issued its securities in Europe, Great Britain was the country that had the greatest quantity of capital dispersed over the world. Her holding of foreign and colonial securities amounted to nearly 100 billions of francs. Moreover London was the principal market for gold; a large part of the annual output of the mines found its way there, and was distributed thence among the other markets according to the needs of business and the state of international accounts. The pound sterling was the world money; a sterling bill accepted by one of the London houses specializing in this kind of business was equivalent to gold; many of the transactions concluded in other countries were settled in London through the medium of accepted drafts.

It is true that the British Government, when once war was de-

¹ The official source from which the most abundant information on the foreign loans may be drawn is the draft budget for the year 1923 (*Chambre, Session ordinaire de 1922, doc. No. 4220*). M. Goutte's essay already referred to contains valuable data with regard to the period before the United States joined in the War. Some interesting facts will also be found in the collection of reports of the Bank of France, and in the work by Decamps above mentioned, "*Les changes étrangers.*" The draft budget for 1925 (*Document No. 441*), in the portion entitled "*Inventaire de la situation financière de la France,*" supplements in certain respects the data furnished by the draft budget for 1923.

clared, closed its markets and forbade any issues that were not authorized by itself. This was a necessary measure and one that was adopted also by France. A State at war gives priority to its own demands on the country's savings. But if French borrowing on the London market was somewhat narrowly restricted by this policy, it nevertheless did not deprive France of the resources of that market. An agreement arrived at on the 5th February 1915 between the Finance Ministers of Great Britain, France, and Russia laid down the principle of the fusion of the financial resources of the three countries for the purpose of the War.² In conformity with this principle the French Treasury received from the British Treasury, not only certain direct advances, but also its support when the British public was asked to subscribe to French loans. France obtained in England the sums required to pay for goods purchased in that country, and also part of the sums required to pay for her purchases in the United States before the latter country had in turn entered the War. An important part of French payments to the United States was effected through London, which supplied dollars.

The greater part of the funds obtained by France from the British market was derived from direct advances by the British Treasury to the French Government. There was also an advance by the Bank of England to the Bank of France. Lastly, issues of stock were made on the British market.³

(1) The advances by the British Treasury were made in virtue of agreements of 1915, 1916, 1917, and 1919. Funds were advanced against delivery of French Treasury bills, which were discounted by the Bank of England. The interest has up to now been capitalized, and gives rise at each maturity to the delivery of additional bills. It follows that the amount of the French debt is greater than the sum effectively received and goes on increasing from year to year.

² The following are the terms of this agreement: "They (the Ministers of Finance) agree in declaring that the three Powers are resolved to unite their financial as well as their military resources so as to carry on the War to final victory. . . . The question of the relations to be established between the banks of issue of the three countries has been dealt with in a special agreement. The Ministers have decided to carry out in concert any purchases that their countries require to effect in neutral States. . . ."

³ Moreover, bank credits were opened in favor of the French Treasury to the amount, at the end of 1919, of £10,500,000; further arrangements made in 1920 increased these to £15,925,000.

The sums effectively received by the French Treasury amount to £445,750,000, distributed as follows:

	<i>Pounds</i>
In virtue of the agreements of 1915	19,800,000
In virtue of the agreements of 1916	177,200,000
In virtue of the agreements of 1917	143,550,000
In virtue of the agreements of 1919	105,200,000
	<hr/>
Total	445,750,000

The advances made by the British Treasury during the period prior to the entry of the United States into the War had two characteristics which were absent in subsequent advances. They had as counterpart the delivery of certain quantities of gold by France to England, the gold being either sold or lent. We have already explained this arrangement, which, while providing France with funds, enlarged the basis of specie on which British credit rested. Another feature of the advances of this period was that, at least in certain instances, the agreement specified the purpose of the credits: these were to be employed in part for payments in Great Britain, in part for payments in the United States. Thus the agreement of the 30th April 1915 assigned one-third of the credit opened to payments to be made in England, and two-thirds to payments to be made in America; the agreement of the 8th February 1916 opened, in favor of France, a credit of £18,000,000 for payments in America, and a credit of £10,000,000, in monthly installments, for payments in Great Britain. The method of employment of the sums advanced was not in all cases specified: the agreement of the 24th August 1916, which opened a credit of £150,000,000 in favor of France, contained no such stipulation, nor did that of the 28th March 1917, concluded on the eve of the American participation in the War. But in fact the advances of the British Treasury correspond in great part to credits that were obtained for France in the United States before that country entered the War.

(2) The Bank of England advanced £72,000,000 to the Bank of France (agreement of the 25th April 1916), which sum was reduced to £65,000,000 out of the proceeds of the English portion of the French 4 per cent loan of 1918. This advance was effected by the Bank of England discounting French Treasury bills delivered

to it by the Bank of France. There was accordingly no difference, in substance, between this operation and the advances made directly by the British Treasury to the French Government. The Bank of France acted merely as an intermediary; as for the Bank of England, it discounted the bills presented to it, just as it did those which the French Treasury delivered to the British Treasury.⁴ The only difference was that here the operation was between banks instead of being between Governments. In French budgetary documents, where a distinction is made between what are there called the political debt and the commercial debt respectively, the transaction between the Bank of England and the Bank of France is comprised in the latter, whereas the advances by the British Treasury are comprised in the former.

(3) The French State issued certain securities on the British market—Treasury bills and stock of its four great war loans. There were two issues of 5 per cent one year Treasury bills; the first was made in October 1914 by Messrs. Rothschild of London, to the amount of £2,000,000; the second was made in January 1915 by the Bank of England, to the amount of £10,000,000. None of these bills are still in circulation.

On the occasion of each of the funding loans of 1915, 1916, 1917, and 1918, a portion of the issue was subscribed in London. The total amount of sterling obtained in this way by the French Treasury was about £50,000,000.

If we include all the above items, the funds obtained in Great Britain by France during the period 1915-1919, expressed in francs at the average rate of exchange of the year, may be stated as follows:

	<i>Millions of francs</i>
1915	814
1916	6,968
1917	3,997
1918	1,594
1919	1,759
	<hr/>
Total	15,132

⁴It discounted the bills delivered by the Bank of France at 1 per cent above its normal discount rate, whereas it discounted at its normal rate the bills delivered by the French Treasury to the British Treasury.

II. *Credit operations effected in the United States.*

The financial relations between France and the United States during the War present a very different aspect according as we consider the period before the entry of the United States into the War, or the period that followed. During the first, France experienced increasing difficulty in procuring funds wherewith to pay for purchases in the United States; the neutrality of that country naturally prevented anything in the way of direct assistance by the American Treasury, and the attitude adopted at one moment, towards the end of 1916, by the Federal Reserve Board, gave ground for fearing that credits would thenceforth be refused to France, or be very strictly doled out, by the banks.⁵ During the second period, the advances made by the Treasury supplied all the funds required.

§1. *Period from August 1914 to April 1917.*

The United States, together with England, were France's principal source of supplies, and this is indicated by the figures of American imports. In 1913 imports from America into France had amounted to 895 million francs; in 1915 they amounted to 3028 millions, and in 1916 to 6163 millions, exceeding in that year those from Great Britain (5967 millions).

The problem of means of payment presented difficulty, both from a financial and a political standpoint. The United States until recent years were a borrowing rather than a lending nation; their railways in particular were constructed with European capital, and in 1914 a large amount of debentures of American companies were held in England and a certain amount in France. The American public were not at all accustomed to investments in the stocks of European countries, especially in fixed interest bearing securities. On the other hand there were extensive economic relations between the United States and Germany, resting on the fact that an important part of the American population was of Germanic origin. German propa-

⁵ In November 1916 the Federal Reserve Board advised American banks to refrain from subscribing, in very large quantities, long term bills of the belligerent countries, as circumstances might render it difficult to realize them. But a further note dated the 20th December 1916, stated that the Board saw no objection to the banks lending money abroad in the form of subscriptions to long term bills.

ganda was extremely active and well organized, and its influence was felt in financial circles. At the outset of the War Mr. Bryan had declared on behalf of the Government that loans by American banks to a foreign country in a state of war were not compatible with the true spirit of neutrality. It was not until April 1915 that a new declaration by the Government corrected the effect of this expression of opinion: the Federal Government announced that it had not considered itself entitled to object to the agreements concluded between certain American banks and certain belligerent countries; it was not its business either to approve or disapprove them.

The situation was accordingly difficult. If financial solutions were discovered, they were of a partial, piecemeal, and fragmentary character, and did credit to the ingenuity of the negotiators. France had in America sympathies of long standing, and friends who proved faithful and active. The prestige and wide relations of British finance provided a firm support. Lastly, the industrial and commercial interests of the United States were inclined, by the natural tendency of things, to approve the French applications for credit. France's orders were a source of very great profit, and as they could be paid for only if the required funds were found on the spot, those to whom that profit would accrue were soon disposed to favor the grant of the credits that she asked for, and influenced the Government and public opinion in that sense.

England, as we have seen, furnished France with a part of the dollars that she required. The remainder was obtained by means of bank credits in the United States or of issues of stock on the market. The credits were obtained in two ways: some by the French Treasury directly, some through intermediaries. We shall consider successively the issues of stock and the direct and the indirect credits.

(a) *Issues of stock.*

The first issue on the New York market was made in April 1915 through Messrs. J. P. Morgan & Co., the National City Bank, and the First National Bank; the amount was 50 million dollars; the securities issued were 5 per cent bonds, redeemable at the option of the holders in dollars in New York or in francs in Paris, at the rate of 5 fr. 18 $\frac{1}{8}$ to the dollar—a provision that the course of events has rendered useless, but that was justified at the time as a guarantee

against a possible fall in the dollar. The amount subscribed was to be employed entirely in payments in the United States. It was stipulated that interest and capital were to be paid, whether in peace or in war, without regard to the nationality of the holders, and without the latter having to substantiate in any way their claim.

The issuing syndicate stated in the prospectus that a large part of the bonds had already been subscribed. The operation however was only a moderate success; the subscriptions reached only \$26,200,000.

The second issue was made in October 1915. It was the Anglo-French 500 million dollar loan in 5 per cent five-year bonds. The issue had been authorized by the French law of the 8th October 1915.⁶ The price of issue to the public was 98, but the syndicate received the bonds at 96. The loan was redeemable in October 1920, but the holders had the option of demanding conversion into 4½ per cent bonds, which would be redeemable only in October 1930. Divided equally between France and Great Britain, this loan yielded to the former a net sum, after deducting commissions, of 1243 million francs, representing a nominal capital of 1295 millions. Out of each share of the loan, that of France and that of Great Britain, one-fifth was placed at the disposal of the Russian Government.

The third issue during this period was made on the 19th March 1917. It was a loan of 100 million dollars, at 5½ per cent for 2 years, repayable therefore in 1919, and convertible at the option of the holder into 20-year bonds. Interest and principal were payable in gold in the United States, the holder having also the right of demanding payment in Paris at the rate of 5 fr. 75 the dollar. Securities to the value of 120 million dollars were assigned as collateral for the loan, of which 20 millions were securities of American corporations and of the Canadian Pacific Railroad, and 100 millions were Argentine, Uruguayan, Brazilian, Swiss, Netherlands, Spanish, Danish, Swedish, Norwegian, Egyptian, and Canadian securities. The securities were deposited in the strong-room of the Central

⁶ The terms of this law were as follows: "The French Government is empowered to issue in the United States jointly (*conjointement et solidairement*) with the British Government, one or more loans of which it will determine the amount and conditions in the best interests of the Treasury; the securities of these loans will be exempt from existing or future taxes."

Trust Co., of New York, and it was agreed that a margin of 20 per cent should always be maintained between the value of the collateral and the amount of the loan. The issue was made at 99 and yielded, in round figures, 498 million francs to the French Treasury.

A comparison of the terms of this issue with those of the two previous issues will show that the American market had become perceptibly tighter since 1915.

(b) *Bank credits opened directly in favor of the French Treasury.*

There were two credits of this kind opened, one in November 1914, and the other in April 1916. There should be added thereto the transactions of 1915 with Messrs. J. P. Morgan and Co., based on the repurchase of American railroad bonds issued before the War on the Paris market. But these transactions were mentioned in Chapter VI, in connection with the measures taken to utilize the French holding of foreign securities, and there is no occasion to return to the subject.

The operation of November 1914 consisted in the discount by the National City Bank of New York at $5\frac{3}{4}$ per cent of French Treasury bills to a nominal amount of 10 million dollars.

In August 1916, an advance of 100 million dollars was made to the French Treasury by a group created for the purpose, the American Foreign Securities syndicate; it was formed by Messrs. Morgan, the National City Bank, and the Guaranty Trust Co. The loan was made for three years at $7\frac{1}{4}$ per cent. It was guaranteed by collateral in the shape of American or neutral securities to the value of 120 million dollars. The syndicate issued to the public 5 per cent bonds maturing in three years, but these were not securities issued by the French Government, which dealt with the syndicate alone.

(c) *Bank credits opened in favor of the French Treasury through intermediaries.*

A borrower finds it beneficial to present himself from time to time under different personalities. Large cities, groups of bankers and manufacturers borrowed on the American market and placed the dollars that they procured at the disposal of the French Gov-

ernment. Besides the advantage of introducing a new borrower on the market, whose credit is distinct from that of the State and unimpaired by previous operations, this procedure provided a means of circumventing an obstacle raised by one of the clauses of the Federal Reserve Act. This law limited, as we have seen, the commitments of the Federal Reserve banks in respect of notes and bills signed or endorsed by any one person. The French State was therefore obliged to get other borrowers to take its place, who would carry out the operation in their own name and then hand over to it the supplies of exchange obtained by them.

Loans were contracted in this way by certain French cities: first the city of Paris, then those of Bordeaux, Lyons, and Marseilles. The city of Paris loan (decree of the 4th October 1916) was for a sum of 50 millions of dollars, in 6 per cent five-year bonds. The loans of the cities of Bordeaux, Lyons, and Marseilles (three decrees of the 2nd December 1916) were each of an authorized amount of 25 million dollars, in 6 per cent three-year bonds; but in fact only 12 million dollars of each loan was issued.

The credits opened in favor of groups of French banks or manufacturers were numerous. The first was the credit opened by Messrs. Brown Brothers in August 1915. The operation was arranged in America by a delegate of the Bank of France, and it was of great importance because it was the first positive application of the Federal Reserve Act, which came into force in November 1914, to international discount and acceptance transactions. The credit was opened by an American group, comprising nineteen of the principal banks and trust companies of New York and organized by Messrs. Brown Brothers, in favor of a French group whose operations centered in the *Crédit Lyonnais*. It amounted to 20 million dollars, and was granted for three months, with three renewals, each for three months, making a total period of one year. It was renewed for one year in 1916 and increased to 25 million dollars. The credit was realized by means of acceptances, and this method was employed in several similar credits subsequently opened; the members of the French group drew on the members of the American group; the latter accepted the drafts and presented the acceptances to the Federal Reserve bank which discounted them. The credit was available only to meet the commercial needs of France in the United States, that is to say, to pay for American exports. The Bank of France

had deposited Treasury bills, as collateral for the credits granted, to the order of Brown Brothers with various branches of American banks.

Another operation, under the same form of acceptance credits, was effected between the American Bonbright group and the French Schneider group: three months bills, renewable three times, were drawn by members of the French group, accepted by the American drawees, and discounted by the Federal Reserve banks. French Treasury bills, expressed in dollars, were deposited by Messrs. Schneider & Co. at the Bank of France as collateral. There were four such credits, of 15 million dollars each, opened by agreements of December 1915, March and September 1916, and March 1917. Messrs. Schneider applied a portion of the credits directly in payment of its purchases, and handed over corresponding sums to the French Treasury; the unemployed balance of the credits was transferred to the latter.⁷

⁷ The following is a list in chronological order, taken from the budget proposals for 1923, of the loans contracted directly or indirectly by France in the United States, during the period prior to the entry of the latter into the War (the transactions are expressed in dollars):

1. Issue of one-year Treasury bills in November 1914 to a nominal amount of \$110,000,000. These were subscribed by the National City Bank at 5¾ per cent discount.

2. Issue of Treasury bills in April 1915 through an issuing syndicate headed by Messrs. Morgan. These were 5 per cent one-year bonds at 99½. They were subscribed for an amount of \$26,200,000.

3. Two advances on securities granted by Messrs. Morgan and Messrs. Rothschild, the former for \$42,190,780, the latter for \$2,175,000. The securities were supplied by the French Treasury and consisted of American stocks bought on the French market or lent by the holders.

4. A credit opened by Messrs. Brown Brothers through the Bank of France. Originally repayable in 1916, it was renewed for a further period of one year.

5. A loan of \$500,000,000 contracted jointly by France and England for a period of five years (the Anglo-French loan of October 1915-1920). This was a 5 per cent loan issued at 98. The share of the French Government was \$250,000,000 of which one-fifth was to be ceded to the Russian Government.

6. The credit opened by Messrs. Bonbright and certain other houses, against delivery of French Treasury bills expressed in dollars. Its repayment was guaranteed by several French banks besides Messrs. Schneider. The latter utilized a portion of the credit for its purchases of raw material and

The French railway companies and various groups of manufacturers obtained similar credits in the United States.

The Bank of France played an important part in the transactions by which credits were opened during the period prior to the entry of the United States into the War. The report submitted by the Governor of the Bank to the general meeting of shareholders on the 27th January 1915 brings out this point very clearly, though with the discretion that is customary in documents of this kind. "As regards the resumption of international credits," says this report, "we have devoted ourselves in particular to paving the way for other banks, so that measures taken on their initiative might be facilitated by the precedents that we had created." During 1915 the Bank of France guaranteed the exchange in respect of an advance granted on the English market to a French bank; it also guaranteed an acceptance credit of £5,000,000 opened for one year by a group of London bankers. On the American market it guaranteed the unpaid a corresponding sum over to the French Treasury. The amount of this credit was \$60,000,000.

7. Advances against securities, granted by Messrs. Morgan and others, to an amount of \$100,000,000 for three years. The securities handed over as collateral represented a nominal capital of \$120,000,000. They had been acquired on the French market. The rate of discount was $7\frac{1}{4}$ per cent.

8. A loan of \$50,000,000 contracted by the city of Paris with Messrs. Kuhn Loeb and immediately transferred to the French Treasury. It consisted in 6 per cent bonds issued at $88\frac{3}{4}$ for 5 years (October 1916-1921).

9. Advances against securities to an amount of \$12,400,000 granted by Messrs. Seligman Co., for one year (October 1916-1917) at 7 per cent discount.

10. A loan of \$60,000,000 contracted jointly by the cities of Bordeaux, Lyons, and Marseilles and transferred to the French Treasury. This loan consisted in 6 per cent bonds for three years (November 1916-1919). It was only subscribed in part.

11. An issue, or rather a discount, of \$6,500,000 of 5 per cent Treasury bills by Messrs. Dupont de Nemours against an order for munitions.

12. A credit of \$100,000,000 opened in favor of various manufacturers and transferred to the French Treasury. This credit was guaranteed: (a) by bills at ninety days renewable five times; (b) by neutral securities; and (c) by French Treasury bills expressed in dollars. The rate of discount was $8\frac{1}{4}$ per cent plus a commission.

13. A loan of \$100,000,000 contracted with Messrs. Morgan and others for two years (1917-1919). It was a $5\frac{1}{2}$ per cent loan issued at 99, and was guaranteed by collateral of neutral securities to the amount of \$120,000,000.

change in respect of an advance of \$2,000,000; it prepared the way for the Brown Brothers credit; it prepared the negotiation of the Anglo-French loan; it undertook to place if required at the disposal of the State the exchange needed to cover at maturity the credit opened in New York by the Morgan group of banks against deposit of American railroad bonds purchased by the French Treasury.

The report for the year 1916 shows that the Bank of France continued to pursue the same policy: it undertook to provide exchange to an amount of 500 million francs in connection with credits or renewals negotiated in England, America, Switzerland, Denmark, and Norway; it negotiated, on the New York market, operations analogous to the Brown Brothers credit, on behalf of French companies or undertakings that were obliged to purchase their plant or raw materials in America: it prepared the loans contracted first by the city of Paris, and subsequently by the cities of Bordeaux, Lyons, and Marseilles.

§2. Period subsequent to the entry of the United States into the War.

In spite of the variety of methods of credit adopted, the task of finding on the American market the wherewithal to pay for the purchases that had to be made in that country became increasingly arduous with the prolongation of the War and the increase of expenditure. The terms of the later operations of the period that we have just examined were rigorous. Those whose duty it was to provide the French Treasury and French commerce with dollars saw the possible sources of supply becoming restricted, and perhaps felt that the moment was approaching when the financial market of the United States would be closed to France, or open only on terms that would be nearly intolerable. If they did not reveal their anxieties, these might be guessed by anyone who had some knowledge of the situation.

The conditions changed from April 1917 onwards. It was the Federal Treasury that now placed at France's disposal the sums required for her payments in the United States. On the one hand, it furnished the value in dollars of the francs advanced to it by the French Government for the maintenance and equipment of the

American armies on French territory; on the other, it advanced the additional sum in dollars required to cover French expenditure on the American market.

The advances of the Federal Treasury were as follows:

	<i>Thousands of dollars</i>
In 1917	1,130,000
In 1918	895,000
In 1919	760,330
	<hr/>
	2,785,330

Moreover a supplementary credit of \$200,000,000 was opened in favor of the French Treasury to meet the requirements of commerce, and was transferred to the Bank of France, which utilized it, in installments, from 1918 to 1920. The total of the advances was therefore \$2,985,330,000.

This figure, however, by no means represents only new expenditure; a large part was employed to repay loans contracted in the earlier period and now matured.

From the first months of 1919, the Federal Treasury ceased to grant fresh advances, but a part of those previously agreed to was not realized until October and November 1919. Other operations also took place after 1919, with the object of repaying commercial debts previously contracted. Mention should further be made of the purchase by France of the American stocks of war material, for a lump sum of \$400,000,000, represented by 5 per cent bonds repayable at the end of ten years.

§3. Summary of the credit operations effected in the United States.

Taken all together, the loans contracted by the French State, directly or indirectly, in the United States from 1915 to the 31st December 1921 amounted to \$4,486,000,000 in round figures, and repayments during the same period to a little more than \$898,000,000.

If we confine ourselves to the period 1914-1919, the following are the sums obtained in the United States, expressed in francs at the average rate of exchange of the year:

	<i>Millions of francs</i>
1914	51
1915	1,845
1916	1,624
1917	7,532
1918	5,388
1919	9,267
	<hr/>
Total	25,707

III. *Credit operations in other countries.*

France had to make purchases in countries other than Great Britain and the United States, purchases no doubt less extensive, but still considerable. Means of payment had to be procured there also, and this was possible only by means of loans contracted in the country itself. These operations were of a strictly private character, as the countries were, generally speaking, neutral⁸ and no official assistance could be asked for. The credits were as a rule granted only to the extent of the purchases made in the country; they were granted, not in the interest of the borrower, but in that of the manufacturers, dealers, and agriculturists of the lending country, although in some instances international sympathy may have exercised an influence. There is accordingly no occasion here to distinguish, as in the case of England and the United States, between the political and the commercial debts; the whole debt was commercial. We will briefly indicate the principal operations.

In Sweden, a credit of 50 million kroner was opened by a group of Swedish banks in favor of a group of French banks; a further credit of 6,250,000 kroner was opened in 1918. In Norway, two credits were opened, one of 23,000,000 kroner in 1916 and one of 25 million kroner in 1917. In general the Swedish and Norwegian credits carried interest at 1 per cent above the local rate of discount, and a commission of variable amount was payable in addition. They were guaranteed by the deposit of Swedish, Norwegian, and Danish securities.⁹

In Spain two loans were contracted. The first, known as the

⁸ Except Japan and Canada.

⁹ The Swedish and Norwegian credits were reimbursed in 1920 and 1921 out of funds produced by the sale of the securities that had been pledged.

Urquijo credit, was realized in two installments. It was of the nature of an advance on securities (Spanish railway bonds). The sums placed at the disposal of France by the Urquijo bank amounted to 149 millions of pesetas; the interest was $5\frac{1}{2}$ per cent plus a commission. The second consisted in an advance made by the Bank of Spain on account of a consortium of banks, in virtue of an agreement concluded with the Spanish Government early in 1918; a credit of 455 million pesetas was opened by the Spanish consortium in favor of a group of French banks acting on behalf of the French Government; it was realized by bills drawn by the French banks and discounted by the Bank of Spain.¹⁰

Three loans were contracted in Switzerland, the two first in 1917, the third in 1919. Their amounts were respectively 37,500,000, 127,775,000, and 30,000,000 Swiss francs. The situation had been rendered difficult in the matter of obtaining credits by the publication in March 1916 of a note by the Swiss department of political economy. This note requested the banks to take no share in the issue in Switzerland of any foreign loan, and although it referred expressly only to issues of securities, it was evident that the opening of credits was viewed unfavorably. On the other hand France had a hold on the Swiss Government by the fact that Switzerland drew supplies and raw materials from France. This situation gave rise to the agreements in question. The two first were the outcome of negotiations entered into with the Swiss Government, as a result of which the Government allowed the credits to be opened as compensation for the facilities granted to it in the matter of obtaining supplies. These credits were represented by bills drawn by a consortium of French banks on a consortium of Swiss banks; they carried interest at 5 per cent, plus 2 per cent commission; they were renewable every three months and repayable in twelve installments from February 1921 to February 1922. Swiss securities were deposited as a guarantee. Subsequently the French Treasury substituted its own guarantee for that of the banks, which had indeed acted only as intermediaries.

The third operation consisted in a direct credit granted by the

¹⁰ The repayment was originally to be effected by 13 monthly installments of 35 million pesetas each, from February 1920 to February 1921. Negotiations conducted in 1920 and 1921 had the result of spreading the repayment over three years.

Société financière suisse to the French Treasury under an agreement of the 19th July 1919.

French purchases in Japan assumed importance only from 1917 onwards. Three credits were opened in favor of France, one by the Bank of Japan, the others by a consortium of Japanese banks; obligations and bills of the French Treasury were issued in Japan.

Finally credits were granted to France by a consortium of Netherlands banks, by the *Crédit foncier égyptien*, by the Canadian Government, by the Government of Uruguay, by the Argentine Government and the Argentine Mortgage Bank. In Brazil, it was found possible to cover French purchases through the sums due to French companies, chiefly railway companies, by the Brazilian Government in respect of guaranteed interest; these companies ceded to the French Government the sums in Brazilian money of which they thus obtained the command.

The loans concluded during the period 1915-1919 in countries other than Great Britain and the United States supplied France with the following amounts, expressed in francs at the average rate of exchange of the year:

	<i>Millions of francs</i>
1915	147
1916	208
1917	356
1918	1,713
1919	322
	<hr/>
Total	2,746

IV. *Funds obtained by France through foreign loans during the period 1914-1919. The external debt of France at the termination of hostilities.*

The total of the funds obtained by the French Treasury during the period 1914-1919 by means of foreign loans is as follows:

	<i>Millions of francs</i>
1914	51
1915	2,806
1916	8,800
1917	11,885
1918	8,695
1919	11,348
	<hr/>
Total	43,585

But the net repayments made by the Treasury during the period in question must be deducted: these were as follows:

	<i>Millions of francs</i>
1915	185
1916	347
1917	512
1918	442
1919	2,676
Total	4,162

The net resources obtained by foreign loans from 1914 to 1919 amounted therefore to 39,423 millions of francs.¹¹

A portion of the funds procured by means of foreign loans was only made available subsequently to the period with which we are dealing, in 1920 and 1921. Taking into account these belated encashments, and also the net repayments effected by the Treasury in 1920 and 1921, we get the following results:

	<i>Millions of francs</i>
Funds obtained by foreign loans from 1914 to 1921	48,615
Net repayments on foreign loans	12,029
	36,586

¹¹ These amounts in francs are calculated, as stated in connection with the figures in respect of Great Britain, the United States, and the various other countries, at the average rate of exchange of the year.

It should be remarked that the figures in the above tables do not represent exactly the cost of the operations to the French Treasury. For, as the explanatory statement of the budget for 1923 observes, "the repayment of our commercial debt has been effected in great part out of the proceeds of the sale of foreign securities acquired by the Treasury on the French market at a price determined on the one hand by the real price of each security in its country of origin, and on the other by the value in francs at that moment of the currency in which the security is expressed. As a result of the lapse of time between the purchase of the securities and their sale, there have been considerable variations both in the prices of the securities themselves and in the exchange rates of the currencies represented by them, and these variations have reacted on the cost of the operations. In general, the purchases of securities have shown a profit for the Treasury on the exchange and a loss on the price. In general also the profit on exchange in respect of this part of the transaction has been greater than the loss on the price."

Subject to this remark, the figures in the above tables represent with sufficient accuracy the financial results of the operations in question.

The War left France at the end of 1919 with a heavy burden of foreign indebtedness. It consisted of a long term debt and of a floating debt. The composition and amount of these on the 31st December 1919 were as follows:

Foreign debt for fixed term.

Advances by American Treasury	\$2,785,300,000
Anglo-French loan in the United States	\$250,000,000
City of Paris loan in the United States	\$50,000,000
Cities of Bordeaux, Lyons, and Marseilles loan in the United States	\$45,000,000
Loan in Japan	yen 100,000,000
Bonds delivered to the American Government in payment for its stocks of war material	\$400,000,000

Foreign floating debt.

Treasury bills delivered to the British Treasury	£454,557,000
Treasury bills delivered to the Bank of England	£65,000,000
Treasury bills issued to the public through the Bank of England	£10,000,000
Treasury bills issued in the United States	\$25,508,000
Treasury bills issued in Japan	yen 30,000,000

Bank credits.

Spain	{ Advances on securities	pesetas 137,725,000
	{ Credit under agreements of March 1918	pesetas 455,000,000
Sweden—credit under agreements of March 1918		kroner 50,000,000
Norway—credit under agreements of March 1918		kroner 60,000,000
Argentina		pesos 25,000,000
Switzerland	{ Credit under agreement of 29th December 1917	franes 116,500,000
	{ Credit under agreement of 15th July 1919	franes 30,000,000
The Netherlands		florins 55,000,000
Great Britain		£10,500,000
Uruguay		piastres 15,000,000

The amount in francs of this external debt varies, on the one hand as new operations or reimbursements are effected and as interest is added, and on the other with the course of the exchange.

CHAPTER VIII

THE FINANCIAL MECHANISM OF THE WAR

HAVING analyzed the diverse methods by which the French State procured the sums required to meet its war expenditure, we may now endeavor to understand the working of the financial mechanism. The interest of this is not confined to the war finances of France, for, subject to a few national variations, the system by which the belligerent States obtained funds sufficient for their needs was everywhere substantially the same.

So far as concerns the funds obtained by foreign loans, the mechanism is easy to understand. The 43,585 millions of francs furnished by these loans was an influx of wealth supplementary to the resources drawn from the country's own economy, the equivalent of an output that the country did not produce but which it nevertheless consumed.

In the ordinary course of things, nations consume large quantities of goods that they have not themselves produced; this is the effect of the economic relations that have grown up between them. But, by a process of compensation, each nation produces goods that it will not consume and that serve to pay for those which it consumes without having produced them; for instance, English coal and English cotton goods serve to pay for the foodstuffs that England draws from different parts of the world.

It is otherwise with foreign war loans. The money borrowed enabled France to acquire the arms, the ammunition, the steel, the coal, the petroleum, the wheat, the meat, all the things required by the troops or the civil population. But France supplied, in return for these various goods consumed by her, nothing but a promise to pay, a promise to pay interest on the sums due, and after a longer or shorter period to reimburse the capital. In most cases it was the country that supplied the goods which lent the wherewithal to pay for those goods. It was not money that was sent to France, but goods; the money remained in the country that lent it. It was as if, from the standpoint of France, the expenditure had been postponed. Of this postponed expenditure, a part is today in course of settlement; this is what is known as the commercial debt.

As regards the political debt, composed of advances by the British and American Treasuries, the settlement has not been begun either in respect of capital or of interest. It is a question that can be equitably settled only in connection with the wider question of the international war debts. Up to the total of this political debt, there is therefore, so far as France is concerned, a real postponement of war expenditure.

The mechanism is more complicated and more difficult to understand when we have to deal with the resources drawn from the country itself. The resources that France drew from herself during the War were enormously greater than her peace-time revenue. They were of an order of magnitude such as to make it impossible to draw them solely from the national income, that is to say, from that part of the country's wealth which is constantly being renewed, and which a people can consequently consume without impoverishment. We are driven by logic to believe that a portion of the resources with which the War was waged was drawn from the permanent element in the national wealth, that which is usually called the national capital.

This idea occurs to one naturally; it derives from the analogy that we draw, almost unconsciously and sometimes wrongly, between the position of a nation and that of an individual. The latter, if he has to meet an exceptional expenditure, which goes beyond the means at his current disposal, has recourse, as he says, to his capital. He sells or mortgages an estate; he sells securities on the Stock Exchange; he impoverishes himself to the extent of what he takes from his capital.

Transferred from the individual to the nation at war, the notion of a draft on capital certainly expresses a part of the truth. The national revenue, if it had remained as high as in 1914, would not have sufficed to cover the war expenditure. Now, it certainly diminished during the War, as a result of a series of conditions which need only be briefly recalled: the invasion of one of the richest parts of French territory; the material destruction wrought in the fighting zone; the non-payment of the coupons of several classes of foreign securities held by French investors. The national output was reduced during the War by reason of the call to the colors of the able-bodied men of military age, and in spite of the substitute labor supplied by women, children, and old men. It diminished in quality and changed

in kind. Instead of producing things that were economically useful, as in peace-time, the nation devoted a part of its strength to producing things that were useless except for purposes of war and that did not increase the stock of goods adapted to meet its own needs. There was what might be called an unproductive production.

It is true, on the other hand, that there was, in wide circles of the population, a fairly appreciable restriction of private expenditure; either voluntary, as a consequence of a self-imposed effort to economize due to motives of prudence or of patriotic duty, or compulsory, brought about by the scarcity of goods or by legal regulations. This restriction widened the margin between income and expenditure and must consequently have manifested itself in an opportunity for increased savings, for the development of more free revenue ready to respond to the demands of the State, whether put forward in the form of taxes or of loans. But this cause of increase in the revenue was far from compensating for the effect of the numerous causes of diminution previously indicated.

We may conclude therefore that there is a certain element of truth in the idea that the nation while at war was unable to meet its expenditure out of its revenue alone and had to live, as the expression is, on its capital. Nevertheless the idea is not so simple as one is at first inclined to suppose, and its exact meaning must be investigated.

One is tempted to say that the distinction between the portion of the resources drawn from the national revenue and the portion drawn from the nation's capital coincides with the distinction between the yield of taxation and the yield of loans. By taxation the State may be said to have taken a part of the income of the public, and by loans a part of their capital.

But this is not correct. It is true that in the State accounts, the sums borrowed and not yet repaid figure as a liability, and if these accounts are kept like private accounts, this liability will be regarded as to be deducted from the assets. But it does not follow that, when the loan was contracted, the sums it yielded were drawn from the nation's capital. The national income provides the sums subscribed to loans just as it does those paid as taxation. The subscriber to the loan acquires his stock or his Treasury bills out of the savings on his income. When a country has attained such a degree of prosperity that production is not entirely absorbed by consumption, there is at

any moment a certain portion of private income available and seeking investment. Before the War, annual savings in France amounted to several billions of francs; these savings continued to accumulate during the War, and the depreciation of the currency increased their nominal value. The stream of these savings was directed into the State loans. To employ the year's savings to meet an exceptional expenditure cannot be called living on one's capital.

There were subscribers to the loans who, not having at their disposal a sum sufficient to enable them to participate, either borrowed that sum or sold out some of their invested capital. But this does not alter the essence of the situation. If a man borrows in order to subscribe, he is pledging in advance the savings that he expects subsequently to make. If he sells in order to subscribe, he is indirectly applying someone else's savings to the loan. For the purchaser of the securities that I have sold in order to subscribe pays me out his savings, and from the standpoint of the nation's economy, it is as though I had employed my own savings for the purpose. It may be that my purchaser had himself sold in order to pay me the sum which enabled me to subscribe. But if we trace the process far enough back, we always find, in the end, available savings which have served indirectly to provide a subscription to the loan.

There is one case, however, where a subscription to the loan has the effect of diminishing the previously existing national capital. The subscriber, in order to obtain funds, may have sold a foreign security, and this security, as usually occurred during the War, may have been bought by a foreigner. We have here what was formerly an item in the national property now withdrawn from it. The position was of course the same whatever the possession which the French subscriber disposed of to a foreign purchaser, whether a French security, a house, or an estate. We have taken the sale of a foreign security as basis of the argument because it is the case which occurred most frequently. The French holding of foreign securities was reduced during the War, and we have seen the measures adopted by the State to utilize this element in the nation's wealth.

The French subscriber who sells foreign securities suffers no diminution of his private capital. What he had in foreign securities he now holds in French stock. If the subscriber's private estate is not reduced, how can it be said that the property of the nation has diminished? It is because, from the standpoint of the national economy, the

foreign security was a genuine possession. It represented a claim against the economy of another nation to be paid interest and capital. A holding of French *rente* is not, from the point of view of the French national economy, a genuine possession; it represents only the claim of a Frenchman to receive from the French State certain payments which will be drawn, by taxation, from the sum of French wealth. If a State increased the national property by incurring debts, all the belligerents would have come out of the War far richer than they went into it.

Except where a subscription to a loan entails the alienation to a foreigner of an item in the national wealth, the loan is not a diminution of existing capital; it can only be drawn in the last resort from savings on income. It must not however be inferred that war loans were not a cause of impoverishment to the countries that had to contract them. To employ the nation's savings on the manufacture of means of destruction is, from an economic standpoint, unquestionably a calamity. The belligerent countries would obviously be much richer if they had employed on the extension or improvement of their economic equipment the sums, or a part of the sums, that they devoted to waging war. But that is not the point with which we are concerned, which is to ascertain the source of the funds contributed to the loans. Except in the case that we have pointed out, these funds were drawn from savings in course of accumulation, that is to say, from national income, as were the sums levied by taxation. Loans and taxes are both drawn from the same source, because there is no other. Both taxes and loans, although drawn from national income and not from capital, have the same injurious effects when their proceeds are devoted, as is inexorably necessary in war-time, to purposes of destruction.

A loan involves a draft on the nation's capital when as a consequence of the loan some item in that capital passes into the hands of foreign investors. The working of the financial machinery of the war entailed other drafts on the nation's capital.

(1) The War led to the depletion of stocks, which it was found impossible to renew completely while it lasted:—stocks of food, of clothing, of cattle, etc. There was a great shortage of many kinds of goods when the War terminated, and the years 1919 and 1920 were years during which stocks were built up again.

To the extent to which stocks were depleted, it is correct to say that the States at war lived on their capital. There was one stock in France that was heavily drawn upon: it was the stock of forests: timber was felled in abnormal quantities, and this is a form of wealth which is replaced only very slowly.

(2) The War led to the inadequate maintenance of considerable portions of the nation's capital, and here again we may say that the country lived by drawing on its capital.

The essence of what we call capital, whether private or national, is that it should last. But capital does not last by virtue of natural laws. All material goods are perishable, and capital lasts only as a result of an unceasing process of renewal, carried on by the work of man. Houses, factories, plant, furniture, all wear out, deteriorate, and gradually lose some of their economic value; arable land itself remains fertile only by reason of tillage and fertilizing. Capital as a mass is durable, but the elements composing it must be incessantly renovated or replaced.

One of the consequences of the War was that it became impossible to maintain capital as it had previously been maintained. For lack of labor and materials, or from the wish to economize, repairs were very frequently cut down to the indispensable minimum. This voluntary or obligatory economy increased the available income and enabled the State to levy by tax or loan a larger share of the resources of the public. But here again the result was a diminution of capital, which lost some of its productivity and of its market value. To the extent to which this occurred, it is correct to say that the State lived on the national capital.

(3) The most effective method of drawing on the national capital for the needs of war-time was the creation by the State, or on the demand and to meet the expenditure of the State—the latter being what happened in France—of means of payment, without any corresponding creation of wealth. It was especially by this means that the belligerent States drew on the existing national capital, and the point requires to be somewhat fully dealt with.

Means of payment may be created in two ways: either by an issue of forced currency, or by the opening of bank credits against which cheques will be drawn. In France the former of these processes was employed.

Between the bank note issued for the purposes of commerce and business, and the note issued in order that the bank may be enabled to make advances to the State, there is an essential difference. The first is merely a symbol representing real values, transactions, produce, and goods put into circulation; the sum of bank notes increases and diminishes with the volume of business; it adapts itself, as it were automatically, to the fluctuations in the national wealth. The notes issued in order to provide a belligerent State with means of payment do not represent real wealth. They are put into circulation only in order that the State may purchase existing goods and services, and they come as an addition to a sum of means of payment that was already sufficient for the needs of business. The consequence of such issues is a superabundance of means of payment and a diminution of their purchasing power. The value, in terms of goods and services, of each note issued diminishes, and the more notes are issued the more this value diminishes.

From the depreciation of the notes follows a depreciation of existing capital, in so far as this consists of a right to a fixed sum expressed in money. The man who is owed 10,000 francs on mortgage or note of hand, the holder of a railway debenture or Government stock, continues to receive the same sum in francs, but this sum no longer represents more than one-half of the former purchasing power, if the value of the franc in goods has diminished by half.

Those who are owed money on mortgage or note of hand, the holders of fixed interest bearing securities are not the only losers. The wage-earner is a loser likewise, since his wage confers on him a diminished power of purchase; the depreciation of the note affects him in the same way as would a tax on wages. Similarly the owner of a house or of a country estate, who is owed rent, receives less in real value than formerly. But the wage-earner and the owner of rented property are able sooner or later, when current contracts expire, to adapt themselves to the new situation brought about by the depreciation. This adjustment is impossible where a fixed sum of money has been lent, and here the loss is definitive.

Thus the creation for the benefit of the State of a superabundance of means of payment results in the expropriation of a portion of existing capital. An issue of forced currency means the release and mobilization of ancient wealth. What occurs is as if the State had levied, on owners of wealth expressed in a fixed sum of money, a

fraction of their capital. It is a kind of conscription of wealth, but one that does not apply to all owners of wealth and involves an extreme inequality of sacrifice.

The creation of means of payment for the profit of the State by the issue of forced currency causes a circulation of paper from the State to the public and back from the public to the State. The State pays, with the notes that the Bank has made for it, the goods and the services that it needs. The notes return to the State Treasury, either in payment of taxes or as subscriptions to loans. According as the State puts increasing quantities of notes into circulation, so it draws increasing sums through taxes or loans. This fact gave rise to a dictum which had a certain popularity: war supports war.

Obviously this dictum is true only in a superficial and temporary sense. For war to support war, it would have to create as it goes the wealth that it destroys; not merely paper wealth, but real wealth. But war produces nothing but destruction. These masses of paper that go to and fro between the treasuries and the public are only a semblance of wealth, and their ever-swelling flood serves only to conceal for a time the impoverishment of the nation. War supports war only if it is waged on foreign soil and finds there all the wealth that it needs to consume.

The belligerent nations did, in fact, in the War of 1914, consume in part the substance of their previous wealth. They were all subjected to economic waste, the consequences of which will be felt for a long time to come.

APPENDICES

It has appeared advisable to collect at the end of this work the principal data relative to the expenditure and receipts of the period that we have had in view, namely, the years 1914-1919. These data are drawn from the proposals for the general budget for the financial year 1923 (*Chambre des Députés, douzième législature, doc. No. 4220*).

The data here assembled are the following:

(1) Expenditure of the years 1914-1919. This is divided into: expenditure on civil services; military charges; public debt charges; expenditure recoverable in virtue of the peace treaties; aggregate debtor balances on special Treasury services.

(2) Permanent and exceptional revenue of the years 1914-1919, excluding the proceeds of loans.

(3) Yearly excess of expenditure over revenue, and aggregate excess for the period 1914-1919.

(4) Proceeds of loans contracted from 1914 to 1919.

(5) Net repayments effected by the Treasury from 1914 to 1919, not comprised in the budgetary expenditure.

The proposals for the general budget for 1923 draw attention to the fact that these figures cannot be considered as final. From 1916 onwards, the figures of expenditure are merely the total of the credits opened by the annual finance laws and the supplementary credit laws; those of receipts are the total of the recoveries as recorded each month and, except for a few corrections, as published in the *Journal Officiel*. It may be stated, says the explanatory statement to the bill, that the real expenditure and the real receipts will be, the former substantially less, the latter substantially more, than the figures at present recorded.

APPENDIX I

Expenditure of the years 1914-1919.

1. *Expenditure on Civil Services from 1914 to 1919.*

	<i>Millions of francs</i>
1914	2,005
1915	2,479
1916	2,817
1917	4,119
1918	5,443
1919	9,257
	<hr/>
Total	26,120

2. *Military charges from 1914 to 1919.*

	<i>Millions of francs</i>
1914	6,526
1915	14,712
1916	23,853
1917	28,662
1918	36,120
1919	18,185
	<hr/>
Total	128,058

3. *Public Debt charges from 1914 to 1919.*

	<i>Millions of francs</i>
1914	1,360
1915	1,818
1916	3,327
1917	4,816
1918	7,021
1919	7,903
	<hr/>
Total	26,245

4. *Recoverable expenditure from 1914 to 1919.*

	<i>Millions of francs</i>
1914	372
1915	1,914
1916	2,947
1917	4,081
1918	5,952
1919	15,481
	<hr/>
Total	30,747

5. *Aggregate debtor balances on special Treasury services from 1914 to 1919.¹*

	<i>Millions of francs</i>
1914	108
1915	1,197
1916	3,904
1917	2,983
1918	2,113
1919	3,387
	<hr/>
Total	13,692

¹ The figures in this table do not always represent exactly the real charge assumed by the Treasury in the years in question. Certain debits did not involve actual disbursements by the Treasury, notably as regards advances to foreign governments. Similarly certain credits did not give rise to actual encashments. On the other hand, numerous purchases effected abroad were defrayed by the Treasury out of funds procured by it abroad; the liquidation of foreign transactions, and the ascertainment of accurate figures of expenditure and receipts in respect of these, have been subject to considerable delay. (*Exposé des motifs du projet de loi relatif au budget général de l'exercice 1923*, p. 33.)

APPENDIX II

*Permanent and exceptional revenue, excluding the proceeds of loans,
encashed from 1914 to 1919.*

			<i>Millions of francs</i>
1914			4,196
1915			4,130
1916			4,932
1917	{ Permanent	5,977	6,186
	{ Exceptional	209	
1918	{ Permanent	6,213	6,791
	{ Exceptional	578	
1919	{ Permanent	9,707	11,586
	{ Exceptional	1,879	
			37,821

APPENDIX III

Excess of expenditure over revenue.

The sum of the annual differences between revenue (permanent and exeptional) other than the proceeds of loans, and expenditure of all kinds that the Treasury had to meet, is given in the two following tables :

In the first, expenditure is set out under five heads :

- (a) Expenditure on civil services.
- (b) Military charges.
- (c) Public debt charges.
- (d) Expenditure recoverable under the peace treaties.
- (e) Total debtor balances of special Treasury services.

Table A.

			<i>Millions of francs</i>
1914	{	a	2,005
		b	6,526
		c	1,360
		d	372
		e	108
	Expenditure		10,371
	Revenue		4,196
	Excess of expenditure over revenue		6,175
1915	{	a	2,479
		b	14,712
		c	1,818
		d	1,914
		e	1,197
	Expenditure		22,120
	Revenue		4,130
	Excess of expenditure over revenue		17,990
1916	{	a	2,817
		b	23,853
		c	3,327
		d	2,947
		e	3,904
	Expenditure		36,848
	Revenue		4,932
	Excess of expenditure over revenue		31,916

Millions of francs

1917	{	Expenditure	a	4,119	{	44,661
			b	28,662		
			c	4,816		
			d	4,081		
			e	2,983		
1918	{	Revenue			{	6,186
1919	{	Excess of expenditure over revenue			{	38,475
	{	Expenditure	a	5,443	{	56,649
			b	36,120		
			c	7,021		
			d	5,952		
			e	2,113		
	{	Revenue			{	6,791
	{	Excess of expenditure over revenue			{	49,858
	{	Expenditure	a	9,257	{	54,213
			b	18,185		
			c	7,903		
			d	15,481		
			e	3,387		
	{	Revenue			{	11,586
	{	Excess of expenditure over revenue			{	42,627

*Table B.**Millions of francs*

1914	Excess of expenditure over revenue	6,175
1915	Excess of expenditure over revenue	17,990
1916	Excess of expenditure over revenue	31,916
1917	Excess of expenditure over revenue	38,475
1918	Excess of expenditure over revenue	49,858
1919	Excess of expenditure over revenue	42,627
Total		187,041

APPENDIX IV

Proceeds of loans contracted from 1914 to 1919.
(Millions of francs.)

A. Internal loans.¹

	1914	1915	1916	1917	1918	1919
Perpetual loans	....	6,265	5,425	5,174	7,246	.....
Loans for a fixed term	465	.....	.....	.....	.....	655
Bills and obligations (net)	1,858	10,487	12,955	13,054	16,611	25,454
Deposits	....	.....	53	360	436	1,544
	<hr/> 2,323	<hr/> 16,752	<hr/> 18,433	<hr/> 18,588	<hr/> 24,293	<hr/> 27,653

B. External loans.²

America	51	1,845	1,624	7,532	5,388	9,267
Great Britain	..	814	6,968	3,997	1,594	1,759
Spain	..	....	131	67	570	....
Switzerland	..	....	....	46	164	73
Scandinavian countries	..	147	47	11	....	....
Other countries	..	....	30	232	979	249
	<hr/> 51	<hr/> 2,806	<hr/> 8,800	<hr/> 11,885	<hr/> 8,695	<hr/> 11,348

C. Advances by banks of issue.

	3,925	1,150	2,350	5,160	4,680	8,370
--	-------	-------	-------	-------	-------	-------

D. Operations to facilitate payment of war damages.

<i>Crédit National</i> loans	....	....	....	....	....	3,960
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Totals	6,299	20,708	29,583	35,633	37,668	51,331
General total 1914-1919			181,222			

¹ Net yield excluding consolidations and conversions.

² Exchange value at average rates of the year.

APPENDIX V

*Net repayments effected by the Treasury from 1914 to 1919 and not
included in budgetary expenditure.*

(Millions of francs.)

	<i>1914</i>	<i>1915</i>	<i>1916</i>	<i>1917</i>	<i>1918</i>	<i>1919</i>
Treasury bills and obligations						
(Pre-war type)	..	149	...	...	...	....
Deposits	42	68	...	...	...	....
External loans	..	185	347	512	442	2,676
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	42	402	347	512	442	2,676
General total 1914-1919				4,421		

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